Sobeys Inc.

Annual Report 2003

CORPORATE PROFILE

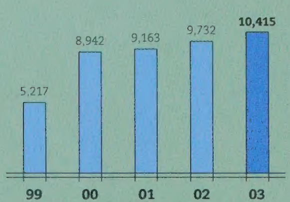
Sobeys Inc. is one of Canada's two national retail grocery and food distributors. Based in Stellarton, Nova Scotia and with regional offices in Edmonton, Alberta; Mississauga, Ontario; Montreal, Quebec; and Stellarton, Nova Scotia, the Company owns or franchises more than 1,300 stores in all 10 provinces under retail banners that include Sobeys, Garden Market IGA, IGA, IGA extra and Price Chopper.

OPERATING AND FINANCIAL HIGHLIGHTS

(All amounts expressed in millions, except per share data)	**May 3, 2003**	May 4, 2002	May 5, 2001
OPERATING RESULTS			
Sales	**$ 10,414.5**	$ 9,732.5	$ 9,163.0
Operating Income	**326.1**	296.6	231.4
Operating Earnings*	**179.0**	161.6	111.2
Net Earnings	**179.0**	210.6	42.0
Weighted Average Number of Common Shares Outstanding	**65.9**	65.9	60.8
FINANCIAL POSITION			
Cash Flows from Operating Activities	**348.1**	494.7	110.3
Net Working Capital	**(86.1)**	(5.6)	(81.7)
Property and Equipment	**1,243.9**	1,072.1	815.5
Total Assets	**3,192.5**	2,875.2	2,917.6
Long-term Debt	**585.4**	523.6	657.0
Shareholders' Equity	**1,436.8**	1,283.3	1,089.8

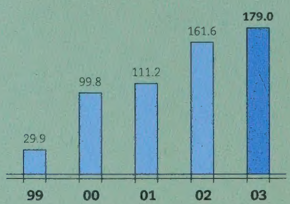
**excludes goodwill amortization*

Sales
(in $ millions)



Sales increased by 7.0 percent in fiscal 2003 due to the expansion and modernization of the retail store network, ongoing refinement of marketing and merchandising initiatives and modest food price inflation.

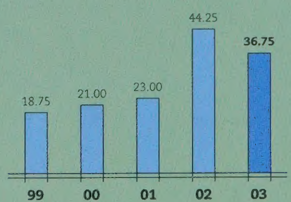
Operating Earnings*
(in $ millions)



Operating earnings were up 11.0 percent in fiscal 2003 due to the expansion and modernization of the retail store network, sustainable progress on key strategic initiatives in marketing and merchandising, distribution and logistics and continued focus on cost management.

**excludes goodwill amortization*

Share Price (TSX: SBY)
Fiscal Year-end Closing (in $ dollars)



The price of Sobeys' shares declined 16.9 percent during fiscal year ended May 3, 2003, reflecting similar performance in the S&P/TSX Index and the TSX Food Stores Index. The price of Sobeys' shares increased by 96 percent over the last five years.

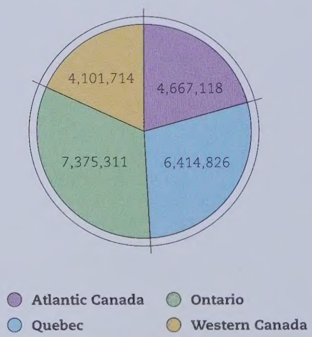
Over the past five years, Sobeys' focus on Building Sustainable Worth has created a dynamic national retail grocery and food distribution company with a solid foundation for continuing growth. Going forward, wealth creation and sustainable differentiation will result from being Ready to serve.™ the diverse shopping occasion needs of our customers across Canada. Ready to serve.™ is more than a statement ~ it's an attitude and a commitment to serve our customers, employees and franchise affiliates, suppliers and shareholders in ways they value ~ as only Sobeys can.

Ready to serve.™

from coast to coast

Total Square Footage
(in thousands)

Square footage by region



One of the country's two national food retailers, Sobeys' leading retail banners serve the needs of Canadian consumers in more than 900 communities from British Columbia to Newfoundland and Labrador.

WESTERN CANADA

Alberta	
Garden Market IGA	53
IGA	53
Food Town	15
Total	**121**

British Columbia	
Garden Market IGA	3
IGA	3
Total	**6**

Northwest Territories	
Food Town	2
Total	**2**

Saskatchewan	
Garden Market IGA	11
IGA	12
Food Town	12
Thrifty Foods	2
Total	**37**

Manitoba	
Garden Market IGA	15
IGA	16
Food Town	14
Price Chopper	1
Total	**46**

ONTARIO

Sobeys	58
IGA	123
Price Chopper	71
Foodland	55
Knechtel	43
Food Town	39
Total	**389**

QUEBEC

IGA extra	42
IGA	208
Marché Bonichoix	97
Les Marchés Tradition	24
Total	**371**

ATLANTIC CANADA

New Brunswick	
Sobeys	20
Price Chopper	9
Needs	16
Foodland	3
Lawtons	9
Total	**57**

Nova Scotia	
Sobeys	41
Price Chopper	10
Needs	70
Foodland	13
Lawtons	34
Total	**168**

Prince Edward Island	
Sobeys	5
Price Chopper	3
Needs	6
Lawtons	1
Total	**15**

Newfoundland and Labrador	
Sobeys	16
Price Chopper	8
Needs	36
Foodland	33
Lawtons	21
Total	**114**

"Our fiscal 2003 results published in this Annual Report confirm that Sobeys Inc. continues to grow in size and in profitability. I have confidence that this growth will once again occur in fiscal 2004."

Message from the Chairman

Last year, in my first Chairman's Message to Sobeys' shareholders, I wrote of both the form and the substance of the governance of your Company. I told you of our compliance with all of the mandated corporate governance requirements, of our observance of governance "best practices," of the fair and proper presentation of the affairs of your Company as disclosed in the Annual Report and of the competence and integrity of your Board. I affirm to you that these behaviours and qualities continue to apply to Sobeys Inc.

Our fiscal 2003 results published in this Annual Report confirm that Sobeys Inc. continues to grow in size and in profitability. I have confidence that this growth will once again occur in fiscal 2004. We continue to invest in buildings and equipment, in systems and, most importantly, in people. We plan for the longer term while we work to deliver solid annual results.

In 2003 our growth was assisted by investment in new and renovated stores, new and expanded distribution facilities, equipment and by the investments of our affiliated retailers. On the ground, our physical growth is apparent both in established urban centres and in new communities across Canada.

The management of Sobeys, led by its President and Chief Executive Officer, Bill McEwan, continues to evolve and strengthen in line with the growing and changing requirements of the business. As retirements occur, opportunities are opened for younger managers with strong potential. This year, as in the past, experienced managers have been hired to help meet new challenges and to keep pace with growth opportunities.

The Canadian food and grocery markets vary by region and overall continue to be demanding environments. The competition is keen and we welcome the challenge. Today, the Canadian consumer is better served in terms of price, choice and quality than ever before. We know that we are contributing to that better service. To Sobeys, Ready to serve.™ means more than easy to fix meals and the friendly courtesy of our employees. It means also that Sobeys is committed to serving our customers by continuing to offer competitive everyday prices, good choices and quality which we stand behind.

This year, Mr. Ron Joyce, a member of the Order of Canada, will retire at the Annual General Meeting in September after 13 years of service on the Sobeys Board of Directors, five years of which followed the Company being listed on the Toronto Stock Exchange. Ron, with his vast experience of serving the public through Tim Hortons brought a very important dimension to the Board. Your Board will miss his counsel.

Also, Ms. Annette Verschuren has retired from the Board and as a result will not be standing for re-election at the Annual General Meeting. Annette, the President of Home Depot Canada, with additional managerial responsibilities in the United States, has found that her responsibilities with Home Depot no longer permit her to devote the required time to being a director of Sobeys. We shall miss her retailing insights and her incisive views.

I welcome to the Board Ms. Christine Cross, a senior food retailing executive with relevant academic credentials and broad international experience. We are fortunate indeed to have secured her services.

On behalf of your Board of Directors, I express our sincere thanks to our employees across Canada and to our franchise affiliates and their employees, who are a very important part of the Sobeys' corporate family.

Sincerely,

Sir Graham Day
Chairman of the Board

"With a clear strategy now in place, we are focused on the marketing and merchandising programs that will continue to differentiate Sobeys more than ever before."

Message from the President & C.E.O.

Fiscal 2003 was a year of solid progress in Sobeys' ongoing journey of Building Sustainable Worth for its customers, its employees and franchise affiliates, its suppliers and its shareholders. Today, our leadership is in place, our people are better equipped, our stores are more modern, our operations are more efficient, and our approach is more disciplined than ever before. We are proud of all we have accomplished, but we remain clearly focused on the road ahead. We will continue to capitalize on what is a remarkable opportunity for growth.

A SOLID FOUNDATION FOR GROWTH

While our Company traces its origins back to 1907, its history as a national food retailer and distributor began a mere five years ago with the $1.5 billion purchase of The Oshawa Group Limited. That bold acquisition provided the scale and geographic reach we needed to thrive in a rapidly consolidating industry, but that was just the beginning. Sobeys' real potential lay in making this platform for growth more efficient. We started by generating $70 million in integration synergies in the two years that followed. Next, we turned to the optimization of our operations through increased levels of discipline in merchandising, administration and logistics which contributed significantly to our earnings growth. We improved our infrastructure by investing more than $2.3 billion over the past five years in the modernization and expansion of our store and distribution networks while reducing total debt by more than $660 million. These efforts have contributed significantly to compound average annual growth rates of 30.5 percent and 36.8 percent in our sales and operating earnings, respectively, since 1998.

Ready to serve.™

We are pleased with how far we have come but we are more excited by what lies ahead. In fact, our next stage of development will see sustainable worth build as a result of our focus and commitment to differentiated formats, improved and tailored product and service offerings, and the consolidation and development of store brands, all supported by our continued cost management diligence. Ready to serve.™ is much more than an advertising slogan for our Sobeys banner stores. It is an all-encompassing attitude and approach we are adopting across our entire Company – in each store, distribution centre, regional office and community. Working together, we are focused on creating and executing a service delivery attitude that is superior to anything found in Canadian retailing. That means being Ready to serve.™ our customers' individual shopping experience expectations; our employees' and franchise affiliates' aspirations for a rewarding work and business environment; our suppliers' appetites for long-term growth; and our shareholders' expectations of ethical wealth creation. In short, we will Build Sustainable Worth by being Ready to serve.™

ANOTHER STRONG YEAR

Sobeys' fiscal 2003 sales rose 7.0 percent to $10.41 billion. Operating earnings grew again this year, by more than 11 percent, to $179.0 million or $2.72 per share compared to $161.6 million, excluding goodwill amortization, or $2.45 per share in the previous year. Although slightly short of our 12 to 16 percent earnings growth target, we are pleased that, save and except for the cost impact of the five-week strike at our Whitby, Ontario, distribution centre, we were right on track. While unfortunate, our response to this strike underscores our ongoing and steadfast commitment to maintaining a competitive infrastructure and cost base for the long-term health of the business.

SOBEYS' STRATEGY FOR GROWTH

Our fiscal 2003 results reflect the continuing efforts to expand our retail network by satisfying a greater percentage of the requirements of customers in existing stores and markets. At the same time we remain focused on steady margin growth through productivity improvements and selling initiatives.

1. Customer-centric focus

Realizing Sobeys' full potential as a national food retailer and distributor depends on satisfying the unique needs of the diverse customers and communities we serve through well-defined, well-located, well-communicated and well-executed formats and banners.

For instance, our Sobeys banner stores are built to serve the full-service segment of the market with unsurpassed fresh foods, high-quality service and selection, unique regional products and a design and layout that makes shopping easier and more enjoyable for our customers. During the past year, we strengthened both the positioning and critical mass of the Sobeys banner. In Ontario, 17 Garden Market IGA stores were converted to Sobeys and in Atlantic Canada several Sobeys stores were refreshed with improvements in fresh merchandising. Meanwhile, the introduction of Ready to serve.™ in both regions has been driving higher operating standards, improved product quality and assortment, and a higher level of customer service in our stores.

A similar customer-centric focus guides our efforts in the full-service segment in Western Canada where the successful Garden Market IGA format was extended to 10 new communities. We also strengthened our full-service position in Quebec where customer research confirms IGA extra and IGA as the clear market leader for fresh foods and total shopping experience.

With the relaunch of our Price Chopper discount banner in Ontario and the conversion of all Lofood stores as well as a number of Foodland and Sobeys stores to Price Chopper in Atlantic Canada this past year, we were Ready to serve.™ more customers for whom low price is the discriminating factor. We are pleased with the growth and success of this banner, and plan further expansion in years to come.

ACQUISITION

The $1.5 billion acquisition of The Oshawa Group Limited in 1998 gave Sobeys a national foundation for growth in Canada's consolidating food industry.

INTEGRATION

During the two years following the acquisition, Sobeys identified and secured more than $70 million in integration synergies.

Of course, for each banner the right mix of products and services is critically important. By leveraging our in-house customer research and working more collaboratively with our suppliers, we continued to refine our retail product and service offerings, while minimizing product costs. In fiscal 2003, we exceeded all of our C.O.R.E. strategic merchandising program objectives. In addition, the focused execution of plans across dozens of categories contributed to our top line sales growth, our bottom line margins and, most importantly, improved the percentage of customer requirements satisfied.

At the same time, our Smart Choice and Our Compliments brands product count grew from 3,376 to 3,430 and totaled 19.3 percent of our total sales at higher margins.

2. Skilled and dedicated service people

We seek to have the best-informed and most engaged service people in the business. We have invested to develop the skills of our people and acquire the tools to help them lead, manage and work more effectively. During the past year, we significantly increased our total investment in our people with comprehensive initiatives in leadership and organizational development, customer service delivery, and food handling and product knowledge. We have strengthened our leadership by redeploying management talent across regions and functions, and by recruiting new people to Sobeys. Our superior franchise affiliate system continues to employ and develop local talent who are uniquely equipped to serve the needs of customers in hundreds of individual communities across the country.

3. Disciplined cost management

In fiscal 2003, we remained focused on a series of efficiency initiatives designed to reduce our selling, general and administrative costs. The year's major accomplishments included the implementation of a national distribution centre replenishment system, an adopted best practice from our Western region. Beyond improved service levels and purchase price optimization, we expect significant annualized working capital improvements as a result of the business process improvements enabled by this replenishment technology.

4. Intelligent investment

We remained committed to balancing steady earnings growth with our determination to harness the full potential of the business over the long term by modernizing and expanding our store base. During the year, total company-wide capital spending reached $546 million, 85 percent of which was retail store investment. A total of 45 corporate and franchise stores were opened or replaced and another 16 were expanded. In total, a net 871,083 square feet of retail store space was added, bringing

OPTIMIZATION

Next, Sobeys turned to the optimization of capital allocation, merchandising, marketing, administrative and distribution functions.

DIFFERENTIATION

With a solid foundation now in place, the distinctive positioning of Sobeys' brands and formats represents the newest and most promising stage of the Company's evolution.

the Company's total retail space to 22.6 million square feet, a 4.0 percent increase over the previous year.

We have also ensured that our national distribution network will keep pace with the growing demands of our retail operations. During the year, we completed the expansion of our Edmonton distribution centre, opened our new fresh food distribution centre in Montreal, expanded freezer capacity at our Milton and Whitby, Ontario sites and commenced expansion of our Debert, Nova Scotia and St. John's, Newfoundland and Labrador distribution centres.

5. Results through performance management

At Sobeys, authority, responsibility and accountability for the ethical achievement of results are mandated clearly and are measured both collectively and individually.

In addition to meeting our published target of 6 to 8 percent revenue growth, Sobeys performed very well against a wide range of financial and operating objectives during the past year. You can review our track record for fiscal 2003 and the objectives we have set for fiscal 2004 on page 10 of this report.

ABUNDANT OPPORTUNITY

While the accomplishments of the past year have been gratifying, they are really just further indication that our efforts to build sustainable worth for all of Sobeys' stakeholders have taken hold and continue to gain momentum. We serve the needs of more than 900 communities across the country with an increasingly strong retail network, upgraded distribution facilities, a focused capital investment program and a customer-centred workforce that is helping us earn an enviable reputation for service. With a clear strategy in place, we are focused on the marketing and merchandising programs that will continue to differentiate Sobeys more than ever before.

I would like to thank our employees and franchise affiliates, whose dedication and hard work have grown the Company; our suppliers, whose engagement is helping us meet more of the everyday needs of our customers more profitably; the Board of Directors for their diligent governance and valued counsel; and our shareholders, who continue to support our growth strategy. With continued support, I am confident we will accomplish what we set out to do for the benefit of all those who touch our business.

Bill McEwan

Bill McEwan
President & Chief Executive Officer

Building Sustainable Worth ~ you can see it in our performance

2003 OBJECTIVES

- Sales growth between 6 and 8 percent
- Operating earnings per share growth between 12 and 16 percent
- Return on equity of 13 percent
- Funded debt to total capital below 35 percent
- Funded debt to EBITDA below 1.5 times
- Company-wide capital expenditures of approximately $600 million
- National share of requirements of 20 percent [1]
- Employee satisfaction index rating of 125 [2]
- Supplier rating in first quartile [3]

2003 RESULTS

- Sales growth of 7.0 percent
- Operating earnings per share of $2.72, an increase of 11.0 percent [4]
- Return on equity was 13.2 percent
- Funded debt to total capital was 28.9 percent
- Funded debt to EBITDA of 1.3 times
- Company-wide capital expenditures were $546 million
- National share of requirements equaled 19.2 percent [1]
- Employee satisfaction index rating reached 121 [2]
- Supplier rating in first-quartile achieved [3]

2004 OBJECTIVES

- Sales growth between 6 and 8 percent
- Operating earnings per share growth between 12 and 16 percent
- Company-wide capital expenditures of approximately $550 - $600 million
- National share of requirements of 20 percent [1]
- Maintain a first-quartile supplier rating [3]

(1) National share of requirements is the measurement (percentage) of all Sobeys Inc. shopping households' total grocery requirements that are satisfied by the Company's retail stores.

(2) Starting with a base index of 100, through independent employee surveys, the employee satisfaction index measures progress in Sobeys' employee satisfaction.

(3) Supplier rating is an independent, comprehensive survey of how Sobeys' suppliers rank our performance on key criteria versus our retail peer group.

(4) Earnings growth of 15.5 percent excluding the impact of the Whitby, Ontario, distribution centre strike.

Sobeys' story is one of rapid evolution from a regional entity to a national retail grocery and food distribution company created in 1998 with the $1.5 billion purchase of The Oshawa Group. This acquisition more than tripled our revenue with established retail banners and foodservice distribution network across the country. Since then, we've successfully generated and captured the synergies made possible by our new scale, integrated core operations, sold non-core foodservice operations, streamlined administration and processes and invested in the modernization of our distribution facilities and store networks. On that platform, we have entered a new and exciting stage in our development, one in which we have turned our attention to the successful differentiation of our retail offerings to secure a special and sustainable winning position with consumers in markets across the country. As explained in the pages that follow...

we are Ready to serve.™ the diverse needs of our customers as never before.

Ready to serve.™

from a strong and growing foundation

Following the acquisition of The Oshawa Group, Sobeys was instantly transformed into a leading national retail grocery and food distribution company. It was a bold step that created a significant platform for growth in a rapidly consolidating industry.

Jim Dickson, Executive Vice President, Chief Development Officer and Secretary and Duncan Reith, President Operations, Sobeys Ontario (opposite page) review plans for the newest Price Chopper Store in downtown Toronto. During fiscal 2003, 85 percent of capital expenditures were directed at the modernization and expansion of the Company's retail store network. Our distribution centre in Whitby, Ontario, (above left) is part of a modern distribution and logistics network that continues to achieve higher levels of productivity.

It started with the integration of the operations of Sobeys and The Oshawa Group, a process that generated $70 million in synergies in the first two years alone. Next, we turned to the optimization of our retail and distribution networks by strengthening our national and regional leadership teams, divesting the non-core SERCA Foodservice operations, implementing a series of cost-management initiatives, and adopting a more disciplined approach to core business functions. In merchandising, for instance, we replaced hundreds of regional, volume-based purchasing agreements with a dozen long-term supplier agreements geared toward improving sales by focusing on satisfying customer demand, growing margins and simplifying administration. Supported by enabling technologies, our people have pursued and achieved growth objectives while building on a renewed spirit of engagement with our suppliers.

Improving distribution and logistics capabilities is an equally important part of the equation. During the past few years, we repatriated and acquired third-party owned and operated facilities and upgraded numerous locations resulting in a national network of 28 well-positioned and well-equipped distribution centres. Optimal service to the stores at lower costs is enabled by state-of-the-art logistics technology such as EXE warehouse management software and engineered labour standards. Additionally, the E3 replenishment initiative has automated the ordering and replenishment process in our distribution facilities. The Company secured significant managed working capital improvements as a result of the implementation of these new processes and tools.

Since 1998, we've invested more than $ 2.3 billion in company-wide capital spending with an increasing proportion of expenditures directed each year to retail stores. Rising cash flows from operations and an increasingly healthy balance sheet will continue to support investments required in the years ahead.

with unwavering attention to local markets

At Andy Taschuk's Garden Market IGA in Edmonton, Alberta, unwavering attention to local markets includes catering to the special needs of Jewish customers with a wide selection of kosher foods.

The Sobeys store at Yonge and St. Clair in Toronto, Ontario, is designed to meet the needs of time-pressed urbanites with a large selection of Ready to serve.™ dinners and gourmet foods.

While Sobeys' national scale and streamlined business process improvements are key, a large part of our success will always be driven by our ability to respond to unique opportunities and conditions in each of the Company's regional and local markets.

Charles Gingras' IGA extra store in Laval, Quebec, satisfies the unique tastes of customers with an impressive selection of cheeses from different regions of the province.

Positioned as The smart choice, our Price Chopper banner in Atlantic Canada and Ontario is targeted to meet the needs of customers who are looking for consistently low pricing and a clean, practical shopping experience.

Sobeys has achieved significant earnings growth by leveraging the economies made possible by its national scale. But the real growth and success of our Company depends on our ability to connect with individual customers in hundreds of different markets across the country. Strong and accountable regional management and our superior franchise system are two operational and competitive cornerstones that will continue to secure a competitive advantage for Sobeys.

Regional business units are structured to focus on the unique opportunities in each of our Western, Ontario, Quebec and Atlantic regions. Consumer expectations, marketplace dynamics, socio-economic conditions and workforce differences in each of these four major markets demand strong, focused regional leadership and execution. In fact, what consumers are looking for varies significantly not only from region to region, but often from store to store. Our network of individual corporate stores and locally-owned and operated franchise affiliates is geared to recognize and respond to their needs one store at a time, for the benefit of the Company as a whole.

At our Garden Market IGA store in Edmonton, Alberta, franchisee Andy Taschuk takes care to provide the specialized foods and services required by his Jewish, Ukrainian and other customers in this increasingly cosmopolitan city. At our new Yonge and St. Clair Sobeys store in downtown Toronto, Ontario Ready to serve.™ meals and other service offerings are in high demand for time-pressed urbanites. In Laval, Quebec, Charles Gingras' IGA extra in Laval offers a remarkable selection of specialty wines and cheeses – not just from around the world but within various regions of the province of Quebec. In Atlantic Canada, our recently introduced Price Chopper banner has been welcomed by the price-conscious consumer.

Ready to serve.™

with distinctive formats and brands

We are committed to attracting, satisfying and delighting Canadian families in more places, more often and more completely, by providing superior selection and incomparable service, in a focused shopping experience. This enables customers to meet their food and household needs, whatever the shopping occasion.

The Sobeys store in Vaughan, Ontario, (opposite page) facilitates the Ready to serve.™ strategy with unprecedented service and bountiful selection in fresh and home meal replacement offerings. With our reputation for fresh products and friendly service, our traditional IGA stores (above left) are designed for supplemental shopping occasions in urban markets and total weekly requirements in smaller communities. The newly invigorated Price Chopper banner (above right) was extended into Atlantic Canada during the past year to meet regional demand for a stronger and clearer discount price offering.

We are looking at and developing our business through our customers' eyes to deliver customized formats and tailored offerings with stores that satisfy specific food shopping occasion requirements.

In our *Full Service Format Stores* we are Ready to serve.™ the full week shopping trip, fresh fill-in occasion and tonight's dinner requirements with a full range of products and services in a comfortably-sized store. We will consolidate this format behind two powerful brands ~ Sobeys for Atlantic, Ontario and Western Canada, and IGA extra in Quebec.

In our *Fresh Service Format Stores* we are Ready to serve.™ our customers' day-to-day needs with exceptional, expanded fresh food departments, and products and services with an extra focus on today's meal solutions, readily available. We will continue to consolidate this format as the Sobeys brand in Atlantic, Ontario and Western Canada, and as IGA in Quebec.

Our *Convenience Service Format Stores* are Ready to serve.™ our customers' "on-the-go" needs with smaller, convenient locations filled with immediate needs items and ready-to-eat food and beverages. We will convert the majority of our Needs banner stores in Atlantic Canada and develop stores elsewhere in the country under the Sobeys *Express* brand.

We will sustain, develop and invest in the IGA brand as our *Community Service Format Stores* across Quebec, Ontario and Western Canada. These stores will continue to serve customers in smaller, individual communities, often as the only store in town.

And Price Chopper will continue to grow as the brand for the *Price Service Format Stores* in markets where a price discount offering best meets the requirements of shoppers to whom price is the discriminating factor.

Our overarching goal is to satisfy more of our current shoppers' requirements while earning the loyalty of more and more customers along the way, resulting in higher sales and profit per square foot.

Ready to serve.™

with skilled and dedicated people

Pharmacist Nancy Woods dispenses medicine, professional advice and friendly service at the Prince Street Sobeys store in Truro, Nova Scotia.

At Sobeys' distribution centre in Whitby, Ontario, Donna Fry is harnessing state-of-the-art voice-pick technology to improve order selection accuracy and lower the cost of supplying our stores.

Being Ready to serve.™ requires the highest level of personal and collective commitment to customer satisfaction. It's a requirement that demands open communication, continuous personal development and the recognition and encouragement of high performance.

Aide-Gourmet Françoise Boisvert, of the Vezina & Rochette IGA extra store in Ile Perrot, Quebec, offers customers the kind of value-added expertise that makes meal preparation easy and inspiring.

Employee Scott Baillie helps Sobeys keep pace with growing demand for health and beauty products at the Prince Street store in Truro, Nova Scotia.

At Sobeys, being Ready to serve.™ is an attitude, a movement that finds expression in every aspect of our operations. It's about working to ensure that Sobeys is the most worthwhile experience available for our customers. Our people are the front-line means through which great service happens. We believe that we must provide a working and learning environment worthy of the personal commitment of our employees and franchise affiliates.

Fostering that conviction begins with open communication of what the performance expectations are, how our people are recognized and compensated, and how their daily efforts make a meaningful difference to our customers and the Company. It requires that we take an active interest in their careers, and demonstrate that Sobeys is an employer that will invest in them and their future. That's one reason Sobeys made a record investment in training and development during the past year in areas such as leadership coaching, food safety and product handling, and customer service.

Bringing out the best in our employees also requires recognition of high performance through incentive programs, such as the Sobeys' Deferred Profit Sharing Plan which allows qualifying employees to directly participate in the growth and success of the Company. Employees earned a record payout from the plan in 2003 for their collective efforts during the 2002 year.

We are equally committed to measuring the value of our ongoing employment proposition. In fiscal 2002, we identified employee engagement, training and overall satisfaction as corporate priorities and implemented an improved employee satisfaction survey to measure our progress in making Sobeys a more worthwhile experience for our employees. We registered a significant improvement in overall satisfaction that fell just short of our goals. We intend to use the insight from this survey to further improve our position with our people.

Ready to serve.™

the communities that sustain our growth

For more than ninety-five years, we have worked hard to make the communities in which our stores do business better places to live, learn, work and play for all of the people who depend on us.

Through our people, our franchise affiliates and our business operations coast-to-coast, Sobeys is part of the fabric of each of the communities we serve. More than 75,000 community residents work in our stores, distribution centres and offices, and *proudly serving our community* stands tall as one of our core values. Whether as an employer, a corporate citizen or a customer to thousands of national, regional and local suppliers, Sobeys has been, and is, Ready to serve.™ as a vital participant in the social and economic well-being of more than 900 communities across Canada.

Through a comprehensive program of community and charitable giving, Sobeys takes a leading role in improving the lives of everyday Canadians at the national, regional and local levels. Each year, in addition to contributions from the Sobey Foundation – a privately-endowed charitable organization of the Sobey family – the Company provides significant financial support to worthy causes in the areas of health, education and social development. In fiscal 2003, we were proud to fund such organizations as The United Way, YMCA, Kid's Help Phone, the Children's Wish Foundation, the Learning Disabilities Association of Ontario, the Montreal Heart Institute, the Georges-L. Dumont Hospital and numerous others. Just as important, there is a strong spirit of volunteerism among our people and they have proved generous in dedicating their time and personal resources to advance charitable causes.

Our tradition of giving is also particularly strong within the franchise affiliate network. From the support of amateur sports to their pioneering efforts in developing new charitable initiatives, individual franchise affiliates across the country continue to play a vital role in building more caring communities.

School is Cool **(opposite page) is a program that supports local community schools. Last year, 20 participating Garden Market IGA stores in Alberta, including Graham Bromley's (pictured), donated up to $50,000 each toward the purchase of computers, books and other educational equipment for local schools. Louis Crevier's IGA in Sainte Dorothée, Quebec (above left) has pioneered community programs such as Blood Donation Day and the annual Journéé de vérification des sièges d'enfants (child car seat inspection program). In fiscal 2003, Sobeys' corporate support included a $50,000 contribution toward the establishment of a vital dialysis ward at the Georges-L. Dumont Hospital in Moncton, New Brunswick (above right).**

Sobeys Inc., based in Stellarton, Nova Scotia, and with regional offices in Edmonton, Alberta; Mississauga, Ontario; Montreal, Quebec; and Stellarton, Nova Scotia, is a leading national retail grocery and food distributor. Founded in Atlantic Canada in 1907, Sobeys owns or franchises more than 1,300 corporate and franchised food stores in all 10 provinces under various retail banners; including Sobeys, Garden Market IGA, IGA extra, IGA, and Price Chopper. Sobeys and its franchise affiliates employ more than 75,000 people and collectively generate more than $11 billion in retail sales.

Sobeys continues to attract new customers and sales with right-sized stores, a focus on food, driven by fresh, and a well-communicated and well-executed offering. Sobeys' vision is to build sustainable worth by being the most worthwhile experience for its customers, employees, franchise affiliates, suppliers, and shareholders.

Throughout fiscal 2003, Sobeys remained focused on the execution of five strategic thrusts, as outlined in the Company's 2002 Annual Report:

- Customer-Centric Focus
- Deployment and Development of Engaged, Committed and Highly Informed Service People
- Disciplined Cost Management
- Intelligent Investment of Operating Cash Flow
- Results Driven by Consistent Performance Management

These five key strategic thrusts guide Sobeys' management, employees and franchise affiliates, in their commitment to Building Sustainable Worth, and are outlined in detail within this discussion, the message from the President & C.E.O. and the Ready to serve.™ section of this Annual Report.

Our Vision

"To be the Most Worthwhile Experience for Everyone Who Touches Our Business"

Our Purpose

"To Build Sustainable Worth for Our Customers, Our People and Franchise Affiliates, Our Suppliers, and Our Shareholders"

Our Values

- Always Place the Customer First
- Get It Done With Passion and Integrity
- Stay Real
- Proudly Serve our Communities

Sobeys' expanding Ready to go meal offerings provide the quality and convenience that today's busy customers are seeking.

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Management's Analysis of Operations

This section provides a discussion and analysis of operations for the year ended May 3, 2003, as compared to the year ended May 4, 2002. This discussion should be read in conjunction with the Company's consolidated financial statements for the same periods, including the notes that accompany them. This discussion also contains forward-looking statements concerning capital expenditures, cost reductions, and operating and financial improvements. Such statements are based on Sobeys' management's assumptions and beliefs in light of the information currently available to them. These statements are subject to inherent uncertainties and risks, including but not limited to general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. Sobeys assumes no obligation to update the information herein.

Sobeys Inc. and its subsidiaries ("Sobeys" or the "Company") conducted business in four retail regions in fiscal 2003: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic.

Price Chopper employee Vijay Krishna makes displays more appealing at the Lawrence & Midland Avenue store in Toronto, Ontario.

During the year, Sobeys launched Ready to serve.™ in the Ontario and Atlantic Canada Sobeys banner stores. Ready to serve.™ is an integrated-end-to-end product and service marketing initiative, with a clear, specific, well-defined, well-communicated, and well-executed offering. The Ready to serve.™ proposition is built upon operating consistency, creative and convenient meal ideas and solutions, differentiated merchandising and marketing, and focused service in our fresh food departments. The Company made significant changes to store staffing, training, store layout and signage, and instore and external communications and marketing as part of the introduction and development of Ready to serve.™.

The Company also introduced its new "prototype" Sobeys store with the opening of locations in Beamsville, Ontario; Bathurst, New Brunswick; and St. John's, Newfoundland and Labrador. The new store prototype is designed to accent the overall Ready to serve.™ positioning, and improve the look, feel, and flow of the store for customers, while reducing construction costs.

Throughout fiscal 2003, the Company continued its focus on streamlining the number of retail banners in key markets, with the conversion of 17 Garden Market IGA stores to the Sobeys banner in Ontario. By fiscal year-end, there were 58 Sobeys stores in Ontario. In addition, the Company relaunched its Price Chopper banner in Ontario with a simpler, better defined positioning and launched the banner in Atlantic Canada, converting all Lofood stores as well as a number of Sobeys and Foodland stores. At the end of 2003, there were 30 Price Chopper stores across the Atlantic Region. Finally, 2003 saw the conversion of 37 Green Gables convenience stores to the Needs banner in the Atlantic Region, consolidating this region's convenience channel offerings under one banner, totaling 128 stores.

On March 30, 2002, the Company sold substantially all of the net assets of SERCA Foodservice ("SERCA"). Consequently, the financial and operational highlights below reflect the performance of Sobeys' retail food distribution business, exclusive of SERCA, which is reported as a discontinued operation in fiscal 2002, in compliance with the Canadian Institute of Chartered Accountants ("CICA") guidelines. Earnings from discontinued SERCA operations in fiscal 2002 were $14.0 million. Also included in fiscal 2002 results was an after-tax gain from the sale of SERCA equaling $80.7 million or $1.23 per share.

For the year ended May 3, 2003, the Company recorded operating earnings (net earnings before gain on sale of discontinued foodservice operations, goodwill amortization, and net capital loss & other items) of $179.0 million or $2.72 per share. This is an 11.0 percent increase over the previous year's operating earnings (excluding goodwill amortization) of $161.6 million or $2.45 per share. Excluding the impact of the strike at the Company's Whitby, Ontario, distribution centre (see description below), earnings would have increased 15.5 percent to $2.83 per share or $186.2 million.

On March 31, 2003, the 368 full and part-time unionized employees at the Company's Whitby, Ontario, distribution centre commenced strike action. The strike lasted five weeks and ended with ratification of a new three-year contract on May 5, 2003. Execution of detailed contingency plans ensured continuity of supply to the Company's retail store network across Ontario during the strike, although, additional costs relating to the strike had a negative impact of $11.3 million pre-tax (11 cents per share after-tax) on the Company's fourth quarter operating results. As a result, the Company advised on May 7, 2003, that fiscal 2003 net earnings growth would fall slightly below its full year guidance of 12 to 16 percent versus fiscal 2002, but reaffirmed its prior guidance for sales growth of 6 to 8 percent over the prior year. The $11.3 million impact of the strike on EBITDA and pre-tax earnings resulted from the costs of implementing the contingency plan, including higher distribution and logistics costs to service stores through alternate facilities and direct to store deliveries, lost wholesale sales to franchise stores, and changes in sales and promotional mix.

Sobeys is committed to achieving results driven through consistent performance management. To assess its financial performance and condition, Sobeys' management monitors a set of primary financial measures, which evaluate sales growth, profitability, and financial condition. The primary financial performance and condition measures are set out below.

Chef Roger Green, who conducts a regular cooking class at Sobeys' Prince Street store in Truro, Nova Scotia, shows customers how to make a perfect grilled mushroom and spinach salad.

PRIMARY FINANCIAL PERFORMANCE AND FINANCIAL CONDITION MEASURES

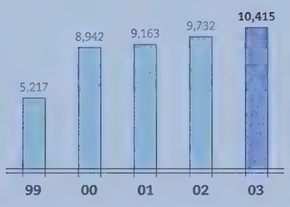
Sales Growth	Funded Debt to Total Capital
Operating Earnings per Share (EPS) Growth	Funded Debt to EBITDA
Return on Equity (ROE)	Capital Expenditures

Financial performance and financial condition at a glance

Sobeys' financial performance and financial condition improved in fiscal 2003. The following is an analysis of key financial measures:

SALES GROWTH

Sales Growth
(in $ millions)



2003 objective was 6 to 8 percent growth

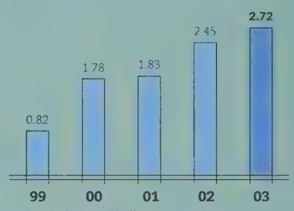
- Sales growth in 2003 was 7.0 percent compared to 6.2 percent in 2002.
- Same store sales increased 3.2 percent, or 2.1 percent excluding expanded stores.
- Key factors influencing sales growth were increased retail selling square footage, improved marketing and merchandising initiatives, and inflation.

OPERATING EARNINGS PER SHARE GROWTH

2003 objective was per share growth of 12 to 16 percent

- Operating EPS of $2.72 versus $2.45 in 2002, an increase of 11.0 percent. Excluding the impact of the Whitby strike, EPS totaled $2.83 in fiscal 2003, an increase of 15.5 percent.
- Growth in operating EPS resulted from the store expansion and modernization program, sustainable progress on key strategic initiatives in marketing and merchandising, distribution and logistics, and continuous focus on disciplined cost management.

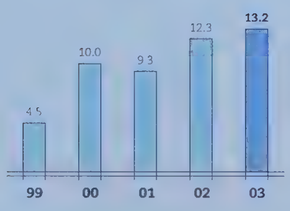
Operating Earnings per Share*
(in $ dollars)



*excludes goodwill amortization

RETURN ON EQUITY (1)

Return on Equity
(percent)



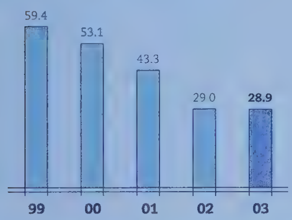
2003 objective was 13 percent

- Sobeys' ROE in fiscal 2003 was 13.2 percent, exceeding the 13.0 percent fiscal 2003 target and the 12.3 percent recorded in fiscal 2002.
- The increased return on equity is the result of growth in operating earnings.

(1) Return on equity is calculated using operating earnings divided by average shareholders' equity

FUNDED DEBT TO TOTAL CAPITAL(1)

Funded Debt to Total Capital
(percent)



2003 objective was to be below 35 percent

- Fiscal 2003 funded debt to total capital was 28.9 percent versus 29.0 percent in fiscal 2002 despite the issuance of a $100 million 15-year Medium Term Note ("MTN") in February 2003 issued in anticipation of a scheduled debt repayment in October 2003.

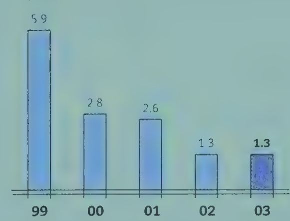
(1) Funded debt is all interest bearing debt.

FUNDED DEBT TO EBITDA

2003 objective was to be below 1.5 times

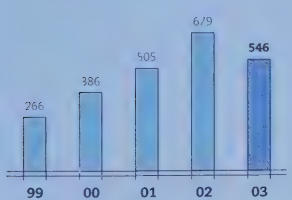
- Remained at 1.3 times in 2003, the same level as fiscal 2002.

Funded Debt to EBITDA
(times)



COMPANY-WIDE CAPITAL EXPENDITURES

Capital Expenditures
(in $ millions)



2003 objective was approximately $600 million

- Company-wide capital expenditures in fiscal 2003 were $546 million.
- The Company's net square footage increased by four percent or 0.9 million square feet to 22.6 million square feet.
- The Company opened or replaced 45 new stores and renovated or expanded 29 stores in fiscal 2003.

SUMMARY TABLE OF CONSOLIDATED FINANCIAL RESULTS

(in millions, except per share data)	2003	% sales	2002	% sales
Sales	$ 10,414.5	100.00%	$ 9,732.5	100.00%
Operating income	326.1	3.13%	296.6	3.05%
Interest expense	41.7	0.40%	57.0	0.59%
Income taxes (operating activities)	105.4	1.01%	96.5	0.99%
Goodwill charges	–	–	15.4	0.16%
Earnings from discontinued operations	–	–	14.0	0.14%
Operating earnings	179.0	1.72%	141.7	1.46%
Net capital loss & other items	–	–	(11.8)	–0.12%
Gain on sale of discontinued operations	–	–	80.7	0.83%
Net earnings	179.0	1.72%	210.6	2.16%
Cash flows from operating activities	$ 348.1	3.34%	$ 494.7	5.08%

PER SHARE, BASIC AND DILUTED	2003	2002
Operating earnings	$ 2.72	$ 2.15
Net capital loss & other items	–	(0.18)
Gain on sale of discontinued operations	–	1.23
Net earnings	2.72	3.20
Dividends	$ 0.36	$ 0.24
Weighted average number of shares outstanding	65.9	65.9

Results of Fiscal 2003 Operations

SALES

In fiscal 2003, Sobeys achieved sales of $10.41 billion, an increase of $682 million or 7.0 percent over fiscal 2002. Sobeys recorded increased sales in all operating regions.

Sobeys' same-store sales increased 3.2 percent (2.1 percent excluding expanded stores) compared to 4.9 percent (3.5 percent excluding expanded stores) in fiscal 2002. Sobeys continues to focus on the significant opportunity to increase sales per square foot across its 22.6 million square foot retail network. Increased merchandising activity, improved marketing, and enhanced in-store promotional programs have targeted a larger share of current customers' requirements by continuing to increase transaction size with its existing customer base.

Sobeys also increased sales by expanding net store square footage by four percent. In conjunction with the addition of new retail square footage, Sobeys continues to attract new customers and sales with right-sized stores, a focus on food, driven by fresh, and a well-communicated, well-executed total product and service offering.

Food inflation levels remained low during fiscal 2003 and have declined in comparison with last year. Grocery-based commodity pricing increases were primarily offset with some fresh produce cost deflation.

The Company expects continued sales growth in fiscal 2004.

CAPITAL EXPENDITURES

Sobeys continued to strategically invest operating cash flows. During fiscal 2003, $546 million was invested in company-wide capital investment, of which $342 million was on balance sheet, with the balance being invested by landlords, franchise affiliates and through other third-party operating leases. The Company used its Regional Market Overview process to accurately identify and prioritize investment opportunities in each of its four regions.

The Company's capital investment program has also contributed to sales growth with 45 new stores opened or replaced during the year (fiscal 2002 – 55), including seven Sobeys (fiscal 2002 – 7), 22 IGA, which includes Garden Market IGA and IGA extra (fiscal 2002 – 36), eight Price Chopper (fiscal 2002 – 6), and eight other banner stores (fiscal 2002 – 6). The capital program included the renovation or expansion of 29 stores (fiscal 2002 – 77), including five Sobeys (fiscal 2002 – 3), 16 IGA (2002 – 63), and eight other banner stores (fiscal 2002 – 11). The capital investment program also included the rebannering of 116 stores during fiscal 2003 (fiscal 2002 - 62). During fiscal 2003, Sobeys constructed an additional 1.4 million square feet, as compared to 2.0 million square feet constructed in fiscal 2002. Eighty-five percent of the total capital spending was directed towards the expansion and modernization of the Company's retail store network. At fiscal year-end 2003, the Company operated 1,326 stores (413 corporate stores and 913 franchised stores). The Company's net (of closures) square footage increased by 0.9 million square feet to 22.6 million square feet, an increase of four percent over the prior year.

OPERATING INCOME

Operating income or EBIT (earnings before interest and taxes) increased to $326.1 million in fiscal 2003, a 10 percent increase over last year. Excluding the impact of the Whitby strike, operating income totaled $337.4 million in fiscal 2003, a 13.8 percent increase over last year.

Fiscal 2003 EBITDA (earnings before interest, taxes, depreciation and amortization) totaled $450.1 million, an increase of $52.5 million, or 13.2 percent over the $397.6 million recorded last year. As a percentage of sales, EBITDA margin improved to 4.32 percent (4.43 percent excluding the Whitby strike) from 4.09 percent last year, an increase of 23 basis points.

The improvement in margin percentage was primarily due to the execution of a series of efficiency initiatives to reduce waste and improve processes in all areas of the business with the objective of securing sustained cost savings. Continuous improvement in marketing and merchandising programs also contributed to the higher margins.

The Company's cost per case shipped continued to decline throughout fiscal 2003, as distribution and logistics initiatives improved productivity and service levels. The implementation of a common distribution centre replenishment system was adopted from the Western Region's "best practice". Beyond the improved service levels and purchase price optimization that this system provides Sobeys, significant annualized managed working capital improvements were secured as a result of the implementation of these new replenishment processes and tools. Sobeys also began implementation of voice-pick technology in its distribution centres to improve order selection accuracy and productivity. The technology enhances the order selection process, substantially reducing the frequency of selection errors. This technology enables improved retail store in-stock positions, and therefore customer satisfaction.

Other improvements were realized through initiatives that included, but were not limited to, optimization of the employee payroll processing system, system-wide energy efficiency and procurement initiatives, realignment of telecommunications contracts, streamlining of advertising flyer production, and reduction of selling and administrative expenses.

Food specialists, such as Deli Service Manager Denise White, help make the new Sobeys store in Vaughan, Ontario a more worthwhile experience for its customers.

The continuous focus on disciplined cost management and reduction, distribution efficiencies, migration of best practices across its four regions, banner rationalization, and optimization of the Company's merchandising programs are expected to further improve operating margin in fiscal 2004.

INTEREST EXPENSE

Interest expense in fiscal 2003 was $41.7 million compared to $57.0 million last year, a 26.8 percent reduction. Interest on long-term debt decreased $13.2 million, while interest on short-term debt decreased by $2.1 million from the prior fiscal year. The decrease was due to a reduction of long-term funded debt and lower borrowing rates. Sobeys enjoyed the full-year benefit of debt reductions, which occurred primarily in the fourth quarter of fiscal 2002, resulting from the use of SERCA sale proceeds. This decrease was partially offset by the interest expense associated with the issuance on February 26, 2003, of a $100 million Medium Term Note (MTN) with a 15-year maturity and a coupon rate of 7.16 percent, in preparation for a scheduled debt repayment in October 2003.

Martin Mydean serves customers in the floral department of the Robie Street store in Truro, Nova Scotia, one of the many value-added offerings at Sobeys.

Of note during fiscal 2003 was the upgrade of the Company's long-term debt rating by Dominion Bond Rating Service, to BBB (high) with a stable trend. This rating upgrade was partially an acknowledgment of the improved performance achieved over the past year, and the Company's reduced debt levels. The Company's improved financial condition also facilitated the re-negotiation of certain credit agreement terms and conditions with its lenders during the year, resulting in lower costs of borrowing, and greater financial flexibility going forward.

At year-end, the Company maintained one interest rate hedge for its term bank credit facility, fixing the rate on $45.1 million of variable rate debt.

The vast majority of the Company's debt is at fixed rates and currently the Company does not utilize its operating line except for letters of credit. Accordingly, there is a limited exposure to interest rate fluctuations.

INCOME TAXES

The actual fiscal 2003 effective tax rate before goodwill charges was 37.1 percent compared to 40.3 percent in fiscal 2002. The decrease of 3.2 percent was consistent with management's expectations, and is primarily a result of reduced statutory tax rates. Sobeys expects tax rates will continue to decline in line with recently announced budgeted provincial and federal statutory tax decreases.

GOODWILL CHARGES

Sobeys discontinued goodwill amortization in fiscal 2003, consistent with the new accounting standard, issued by the CICA, on goodwill and other intangible assets. In fiscal 2002 $19.9 million of goodwill amortization was recorded.

DISCONTINUED OPERATIONS

The sale of SERCA operations was completed on March 30, 2002. Consequently, the fiscal 2002 results from operations of SERCA have been accounted for as discontinued operations. Net earnings from SERCA amounted to $14.0 million for the year ended May 4, 2002.

OPERATING EARNINGS

Fiscal year 2003 operating earnings were $179.0 million compared with $161.6 million last year, an 11.0 percent increase. Operating earnings per share of $2.72 for fiscal 2003 compare to $2.45 in fiscal 2002.

At the end of fiscal 2002, Sobeys set an operating earnings target range for fiscal 2003 of $2.74 to $2.84 per share. This reflected 12 to 16 percent growth on an operating earnings base of $2.45 in fiscal 2002, excluding goodwill amortization. Fiscal 2003 EPS of $2.72 fell slightly below the lower end of this target as a result of the Whitby strike in the fourth quarter.

Operating earnings are expected to grow in fiscal 2004 as a result of continuing progress on the various initiatives outlined above.

CAPITAL LOSS & OTHER ITEMS

In fiscal 2002, a review of certain redundant real-estate assets determined that a write-down in book value was necessary to reflect these assets at their approximate liquidation value; accordingly, a $9.9 million reduction in the carrying value of these assets was recorded.

During the fourth quarter of fiscal 2002, the Company requested an updated third-party evaluation of its Employee Future Benefit Obligation. This evaluation, using current information, identified a necessary $9.5 million adjustment to the initial fiscal 2000 estimate relating to the future provision of employee benefits to former Oshawa Group Limited employees.

GAIN ON SALE OF DISCONTINUED OPERATIONS

During the fourth quarter of fiscal 2002, the Company reported a pre-tax gain of $120.2 million from the sale of substantially all of the net assets of SERCA (see note 2 of the Consolidated Financial Statements). The after-tax gain from this sale equaled $80.7 million or $1.23 per share.

NET EARNINGS

Net earnings were $179.0 million in fiscal 2003, and $210.6 million in fiscal 2002. Removing the net impact of the gain on sale of discontinued operations and capital loss and other items, and excluding goodwill amortization from fiscal 2002 results, earnings increased 10.8 percent in fiscal 2003. Excluding the impact of the Whitby strike, net earnings totaled $186.2 million, a 15.2 percent increase.

Results of Fourth Quarter Fiscal 2003 Operations

SALES

Despite low levels of inflation, sales increased 6.0 percent over the fourth quarter of 2002 as a result of 1.7 percent growth in same-store sales (1.2 percent excluding expanded stores) during the quarter, continued development of marketing and merchandising programs and a 0.2 million net increase in square footage with the opening of 14 new or replacement stores, the expansion of five stores, and the closure of 14 stores.

CAPITAL EXPENDITURES

Company-wide investment in the fourth quarter totaled $132 million, of which $107 million was on-balance sheet, resulting in 0.4 million additional square feet (0.2 million net of store closures), with the average new Sobeys, IGA extra and Garden Market IGA store size of 44,634 square feet. This average new store size is approximately 7,300 square feet larger than the average size of all new and existing Sobeys, IGA extra and Garden Market IGA stores.

Bountiful produce departments are an important part of the Company's reputation for its fresh-food offering.

OPERATING INCOME

Operating income or EBIT in the fourth quarter of fiscal 2003 amounted to $75.1 million, which is essentially flat compared with fourth quarter fiscal 2002 of $75.9 million. Excluding the impact of the Whitby strike, operating income or EBIT in the fourth quarter totaled $86.4 million, a 13.8 percent increase over fiscal 2002.

Fourth quarter EBITDA totaled $107.8 million, an increase of $4.0 million or 3.9 percent over the fourth quarter of 2002. As a percentage of sales, EBITDA equaled 4.20 percent, a decrease of eight basis points over the 4.28 percent recorded in the fourth quarter last year. Adjusting for the impact of the Whitby strike, EBITDA totaled $119.1 million, representing growth of 14.7 percent and equal to 4.64 percent of sales.

OPERATING EARNINGS

Operating earnings for the fourth quarter equaled $40.7 million (fiscal 2002 – $41.9 million excluding goodwill and amortization) or 62 cents per share, a decrease of $1.2 million or 2.9 percent over the fourth quarter last year. The after-tax effect of the Whitby strike resulted in a $7.2 million or 11 cents per share impact on fourth quarter earnings. Adjusting for the strike, earnings totaled $47.9 million or 73 cents per share, an increase of 15.9 percent. The increase in adjusted earnings was the result of sales and margin growth, along with lower interest expense and lower marginal income tax rates over the prior year. The table below summarizes the financial performance highlights for the fourth quarter.

SUMMARY TABLE OF CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER

(in millions, except per share data)	**2003**	**% sales**	2002	% sales
Sales	**$ 2,568.5**	**100.00%**	$ 2,424.3	100.00%
Operating income	**75.1**	**2.92%**	75.9	3.13%
Interest expense	**11.2**	**0.44%**	13.1	0.54%
Income taxes (operating activities)	**23.2**	**0.90%**	24.6	1.01%
Goodwill charges	–	–	3.8	0.16%
Earnings from discontinued operations	–	–	2.8	0.12%
Operating earnings	**40.7**	**1.58%**	37.2	1.53%
Net capital loss & other items	–	–	(11.8)	-0.49%
Gain on sale of discontinued operations	–	–	80.7	3.33%
Net earnings	**40.7**	**1.58%**	106.1	4.38%
Cash flows from operating activities	**$ 234.1**	**9.11%**	$ 292.8	12.08%

PER SHARE, BASIC AND DILUTED	**2003**	2002
Operating earnings	**$ 0.62**	$ 0.56
Net capital loss & other items	–	(0.18)
Gain on sale of discontinued operations	–	1.23
Net earnings	**0.62**	1.61
Dividends	**$ 0.09**	$ 0.06
Weighted average number of shares outstanding	**65.9**	65.9

FINANCIAL INFORMATION BY QUARTER

(in millions, except per share information)	Q4 May 3, 2003	Q3 Feb. 1, 2003	Q2 Nov. 2, 2002	Q1 Aug. 3, 2002	Q4 May 4, 2002	Q3 Feb. 2, 2002	Q2 Nov. 3, 2001	Q1 Aug. 4, 2001
OPERATIONS								
Sales	**$ 2,568.5**	**$ 2,594.9**	**$ 2,613.4**	**$ 2,637.7**	$ 2,424.3	$ 2,436.4	$ 2,427.4	$ 2,444.4
Operating income	**75.1**	**82.6**	**84.1**	**84.3**	75.9	80.4	72.9	67.4
Goodwill amortization	–	–	–	–	3.8	3.8	3.9	3.9
Earnings from discontinued operations	–	–	–	–	2.8	1.5	3.2	6.5
Operating earnings	**40.7**	**45.8**	**46.6**	**45.9**	37.2	36.1	35.1	33.3
Net capital loss & other items	–	–	–	–	(11.8)	–	–	–
Gain on sale of discontinued operations	–	–	–	–	80.7	–	–	–
Net earnings	**$ 40.7**	**$ 45.8**	**$ 46.6**	**$ 45.9**	$ 106.1	$ 36.1	$ 35.1	$ 33.3
PER SHARE INFORMATION *(basic and diluted)*								
Operating income	**$ 1.14**	**$ 1.26**	**$ 1.28**	**$ 1.28**	$ 1.15	$ 1.22	$ 1.11	$ 1.02
Goodwill amortization	–	–	–	–	0.06	0.06	0.06	0.06
Earnings from discontinued operations	–	–	–	–	0.04	0.02	0.05	0.10
Operating earnings	**0.62**	**0.70**	**0.71**	**0.70**	0.56	0.55	0.53	0.51
Net capital loss & other items	–	–	–	–	(0.18)	–	–	–
Gain on sale of discontinued operations	–	–	–	–	1.23	–	–	–
Net earnings	**$ 0.62**	**$ 0.70**	**$ 0.71**	**$ 0.70**	$ 1.61	$ 0.55	$ 0.53	$ 0.51
Weighted average number of shares	**65.9**	**65.8**	**65.8**	**65.8**	65.9	65.9	65.9	65.8
Operating Income as a percent of sales	**2.92%**	**3.18%**	**3.22%**	**3.20%**	3.13%	3.30%	3.00%	2.76%
EBITDA as a percent of sales	**4.20%**	**4.41%**	**4.36%**	**4.32%**	4.28%	4.35%	3.97%	3.74%

Financial Condition

The Company strengthened its financial condition in fiscal 2003. Shareholders' equity increased $153.5 million, or 12 percent to $1,436.8 million compared to $1,283.3 million in 2002. The increase is attributed primarily to net earnings in 2003 of $179.0 million less dividends declared of $23.8 million. Funded debt (short and long-term) increased by $61.8 million, or 12 percent to $585.4 million compared to $523.6 million last year. The increase in funded debt resulted from the issuance of a $100 million 15-year MTN on February 26, 2003, net of the regularly scheduled repayments of other long-term debt.

The Company's primary financial condition measures remained strong in fiscal 2003. Funded debt to total capital declined to 28.9 percent compared to 29.0 percent in 2002; funded debt to EBITDA remained at 1.3 times; interest coverage increased to 10.8 times from last year's 7.0 times; and the managed working capital position was negatively impacted as it increased by $34.8 million.

The Company monitors its financial condition regularly against a series of debt ratios and ongoing management of its working capital position. The following table summarizes the composition of Sobeys' capital structure and key financial condition measures over the last three years.

CAPITAL STRUCTURE & KEY FINANCIAL CONDITION MEASURES

($ in millions)	**May 3, 2003**	May 4, 2002	May 5, 2001
Shareholders' Equity	**$ 1,436.8**	$ 1,283.3	$ 1,089.8
Short-term Debt(1)	**–**	–	$ 175.0
Long-term Debt(2)	**$ 585.4**	$ 523.6	$ 657.0
Funded Debt to total Capital	**28.9%**	29.0%	43.3%
Adjusted Debt to total Capital(3)	**49.5%**	50.5%	60.5%
Funded Debt to EBITDA	**1.3x**	1.3x	2.6x
EBITDA to Interest expense	**10.8x**	7.0x	4.2x
Current Assets to Current Liabilities	**0.93x**	0.99x	0.93x
Managed Working Capital(4)	**$ 34.8**	$ (79.8)	$ 39.7

(1) Includes securitization of accounts receivable.

(2) Includes current portion of long-term debt.

(3) Adjusted debt includes capitalization of lease obligations based on six times net annual lease payments (net of expected sub-lease income).

(4) Managed working capital is the year-over-year change in accounts receivable and inventories less accounts payable.

Sobeys' Our Compliments and Smart Choice brands offer greater consumer value while enhancing profitability.

The Company also monitors adjusted debt to total capital, where net annual lease payments are capitalized (at six times annual lease payments), and this capitalized lease obligation is then added to funded debt. Adjusted debt to total capital at year-end equaled 49.5 percent versus 50.5 percent last year. The improvement in this ratio was primarily the result of growth in retained earnings.

The Company's long-term debt is comprised of $383.3 million due within the next five years and $202.1 million with longer maturities for a total of $585.4 million (2002 – $523.6 million). The fair value of the Company's long-term debt is estimated to be $622.9 million. Long-term debt maturities in fiscal 2004 and fiscal 2005 amount to $150.1 million and $30.0 million, respectively. Cash from operations, use of the Company's short-term credit facility, and the issuance of additional MTNs will finance these maturities. Management monitors debt markets with a view toward replacing maturing debt with longer-term maturities.

On December 20, 2002, the Company filed a short-form shelf prospectus providing for the issuance of up to $500 million in unsecured MTNs over the next two years. On February 26, 2003, the Company issued a $100 million Series C MTN with a maturity date of February 26, 2018 (15 years), and a coupon rate of 7.16 percent. The issuance of this $100 million Series C MTN was to refinance the Sobeys' Series B MTN due October 2, 2003, prior to maturity, to capitalize on the favourable interest rates and term available in February 2003. The carrying cost of issuing this MTN early is approximately $0.01 per share per quarter.

Sobeys' liquidity position remains strong with only nine percent utilization (for letters of credit) of the authorized revolving bank lines of $300 million at year-end. During fiscal 2003, the Company's managed working capital position was negatively impacted as it increased $34.8 million. The change in managed working capital was primarily the result of increased receivables related to tax planning initiatives. In fiscal 2004, Sobeys expects to improve on its managed working capital position, with any short-term fluctuations being funded through cash generated from operations or bank lines of credit.

On November 7, 2002, Dominion Bond Rating Service Limited ("DBRS") upgraded its long-term debt ratings for Sobeys Inc. to BBB (high) with a stable trend from its prior rating of BBB with a stable trend. DBRS also confirmed the rating of Sobeys commercial paper at R-2 (High) with a stable trend. Sobeys' current rating on its long-term debt by Standard & Poor's is BBB– with a stable trend.

The Company anticipates ready availability of any required longer-term financing due to its investment-grade credit ratings and previous experience in the capital markets.

Sobeys' financial condition is expected to further improve in fiscal 2004.

Liquidity and Capital Resources

Cash flows from operating activities in fiscal 2003 of $348.1 million were primarily used for investing activities totaling $348.2 million. The table below highlights major cash flow components over the last two years.

Sobeys' kid carts make shopping more convenient for busy parents by keeping younger shoppers entertained.

MAJOR CASH FLOW COMPONENTS

($ millions)	**2003**	2002
Cash flows from operating activities	**$ 348.1**	$ 494.7
Cash flows from discontinued operations	**3.9**	412.7
Cash flows from (used in) financing activities	**36.3**	(324.3)
Cash flows from (used in) investing activities	**(348.2)**	(392.8)
Net Change in Cash	**$ 40.1**	$ 190.3

OPERATING ACTIVITIES

For the year ended May 3, 2003, the Company generated $348.1 million in cash flows from operating activities, a decrease of $146.6 million from the $494.7 million generated in fiscal 2002. The change is primarily the result of a slight deterioration in working capital in fiscal 2003 as a result of tax planning initiatives and the significant working capital improvements enjoyed in fiscal 2002.

Cash flows from operating activities are expected to fund the majority of the Company's planned cash capital expenditures in fiscal 2004 with the balance being funded through bank lines, the existing MTN program, or other long-term debt.

INVESTING ACTIVITIES

Cash flows employed in investing activities amounted to $348.2 million in fiscal 2003 versus $392.8 million in the prior year. The decrease was due to lower on balance sheet spending for property and equipment ($342.3 million in 2003 versus $424.2 million in 2002, which included the purchase of the Whitby and Milton, Ontario distribution centres for $93 million). During 2003, the Company constructed a total of 45 new and replacement stores (2002 – 55 stores), and renovated or expanded another 29 existing stores (2002 – 77 stores). The average size of new or replacement Sobeys, IGA extra and Garden Market IGA stores increased eight percent to 42,667 square feet (2002 – 39,409 square feet). In addition, a major expansion of the distribution centre in Edmonton, Alberta, was completed in the third quarter of fiscal 2003. Also, a new 133,000 square foot perishable food distribution centre on Montreal's south shore became fully operational in the second quarter of fiscal 2003.

Approximately 85 percent of total capital spending was directed to new stores, renovations, expansions, and replacements, with the remainder being spent on the distribution network, information technology, and other infrastructure initiatives to support Company growth.

The Company continues to focus on growth through a combination of new store openings and renovations, as well as growth through strategic acquisitions, where appropriate. During fiscal 2004, the Company plans to open, expand, or renovate more than 50 corporate and franchise stores across Canada. Approximately 75 percent of total company-wide capital spending in fiscal 2004 will be allocated to the retail store network.

FINANCING ACTIVITIES

Cash flows from financing activities amounted to $36.3 million in fiscal 2003 compared to $324.3 million used in fiscal 2002. The change from the prior year was largely the result of the MTN issuance of $100 million in fiscal 2003, and the use of SERCA sale proceeds to reduce debt in 2002. In fiscal 2002, $25.0 million of bank loans and $147.5 million of long-term debt were repaid, and $175.0 million of securitized accounts receivable were repurchased.

Donna Anderson, Seafood Service Manager, serves up fresh Atlantic lobster, part of a bountiful maritime harvest that has long characterized Sobeys stores.

The Company sources its short-term financing requirements through internally generated cash flows, cash and cash equivalents on hand, and established bank lines. Longer-term financing is obtained primarily through the Canadian public debt markets via the Company's established MTN program. The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility through access to the capital markets for additional long-term debt or equity financing. The Company anticipates continued ready access to financing sources as a result of its investment grade credit ratings and previous experience in the capital markets.

Dividend payments during the year totaled $23.8 million (2002 – $15.8 million). The Company's guideline is intended to maintain a dividend equal to approximately 15 to 20 percent of trailing operating earnings per share (before net capital gains and any other one-time items), after giving consideration to its cash position, future cash flow requirements, and investment opportunities. At the Board of Directors meeting, held June 25, 2003, the Board of Directors approved a $0.11 quarterly dividend per common share ($0.44 annualized), an increase of 22 percent.

On December 13, 2002, the Company announced its intention to file a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 300,000 common shares representing approximately 0.45 percent of the shares outstanding. The intent of these repurchases is to offset the dilution caused by the issuance of common shares under the Company's long-term incentive plan. Shareholders may obtain a copy of the notice of intention without charge, by contacting the Company at Investor Relations, 115 King Street, Stellarton, NS, B0K 1S0.

Accounting Policy Changes Implemented in Fiscal 2003

Effective the first quarter of fiscal 2003 (three months ended August 3, 2002), the Company adopted, prospectively, the new accounting standard issued by the CICA on goodwill and other intangible assets. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized, but will be subject to impairment tests, on at least an annual basis.

Intangible assets, other than goodwill, which do not have indefinite life, are amortized over their useful lives. These intangible assets are subject to an annual impairment test comparing asset values to net recoverable amounts. Any permanent impairment in the book value of goodwill or intangible assets is recognized in income.

Also effective in the first quarter of fiscal 2003, the Company adopted CICA accounting standard, section 3870, "Stock-based Compensation and Other Stock-based Payments." Members of the Company's Board of Directors may elect to receive all or part of their fees in Deferred Share Units ("DSUs") in lieu of cash. On an ongoing basis, the Company values the DSU obligation at the current market value of a Common Share and records any increase in the DSU obligation as an operating expense. At May 3, 2003, there were 26,617 DSUs outstanding. Adopting this standard had no effect on Sobeys' financial statements. The Company currently has no stock options issued or outstanding with DSUs being the only stock based compensation affected by section 3870.

Pension Plans

Following a strategic review in fiscal 2002, a decision was made to merge certain Sobeys' employee defined benefit and defined contribution pension plans. Consistent with the regulatory approval to merge the pension plans, during the third quarter of fiscal 2003, a $9.2 million contribution was made to its defined benefit pension plan to bring the plans to fully-funded status. The contribution was not additional funding, but funding that would have been made over the next few years had the plans not been merged. The merger of the plans will not have any impact on the benefits and obligations due to plan members. The additional pension plan funding of $9.2 million will temporarily increase deferred costs, but this deferred cost will be reduced over the next few years as the pension expense is incurred.

Also in the third quarter, Sobeys recorded a $1.1 million, one-time expense to reduce the rate of return assumption for its defined benefits plans from eight to seven percent. Approximately two thirds of Company pension assets are associated with defined contribution pension plans with the remaining third associated with defined benefit pension plans. The Company has taken steps to close the group of active participants in the defined benefit pension plans, and going forward only defined contribution pension promises will be offered to new employees.

Customer Experience Manager Karen Green is devoted to delivering an increasingly worthwhile experience for our customers.

Risk and Risk Management

Sobeys is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. These risks include retail competitive risk, financial risk, and operational risk.

The Company maintains a strong national presence in the Canadian retail food and food distribution industry. The most significant operating risk to the Company is the potential for reduced revenues and profit margins as a result of increased competition. To mitigate this risk, the Company's strategy is to be geographically diversified with the benefits of national scale, to be customer and market-driven, to be focused on superior execution, and to have cost-effective operations. The Company reduces its exposure to competitive or economic pressures in

any one region of the country by operating in each region of Canada though a network of corporate, franchised and affiliated stores, and by servicing the needs of thousands of independent wholesale accounts. The Company approaches the market with a variety of store formats, sizes, and banners in order to enhance profitability by region and target market.

Sobeys has adopted a number of key financial policies to manage financial risk. In the ordinary course of managing debt, the Company utilizes financial instruments to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes. At year end, the Company held interest rate hedges of $45 million on its funded debt at a fixed rate of 6.4 percent for two years, to mature in 2005. The vast majority of Company debt is at fixed rates. Accordingly, there is a limited exposure to interest rate fluctuations.

Our stores offer customers the same premium quality beef found in the country's finest restaurants.

Sobeys is self-insured on a limited basis with respect to certain operational risks and also purchases excess insurance coverage from financially stable third-party insurance companies. In addition to maintaining comprehensive loss prevention programs, Sobeys maintains management programs to mitigate the financial impact of operational risks. Sobeys, as a part of its quality control program, recognizes food safety, particularly in perishable products, is of the utmost importance. The Company maintains strict policies in its facilities to ensure food quality and safety are not compromised.

Sobeys' operational risks also include the risk of labour disruption. Subsequent to fiscal 2003 year-end, on May 5, 2003, employees at the Whitby, Ontario, distribution centre ratified a new three-year contract. The Company is committed to providing fair, equitable and competitive compensation to its employees. Sobeys will, however, accept the short-term costs of a labour disruption to support a steadfast commitment to building and sustaining a competitive cost structure for the long term. Labour disruptions pose a moderate operational risk, as the Company has good relations with its employees and unions, and does not anticipate any material labour disruptions in fiscal 2004.

Outlook

Sobeys' management believes the Company is well positioned for growth throughout fiscal 2004, with improved marketing and merchandising programs, and continuous focus on disciplined cost management serving to fuel our sales and earnings momentum.

Sobeys is committed to building sustainable worth for all its constituents and is focused on meeting or exceeding the key fiscal 2004 objectives outlined in this annual report.

Non-GAAP Measures

Two measures (EBITDA and operating earnings) included in this Management's Discussion and Analysis do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP) and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes EBITDA because it believes certain investors use this measure as a means of measuring financial performance. EBITDA is calculated as operating income plus depreciation. Operating earnings used in this report is net earnings before gain on sale of discontinued foodservice operations and net capital loss and other items. The Company believes excluding non-operating gains and losses from its earnings, such as those mentioned above which occurred in fiscal 2002, provides a clearer picture of the Company's year-over-year operational performance.

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The financial statements have been prepared in accordance with appropriate Canadian generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, which is chaired by and consists of non-management directors, meets regularly with financial management and external auditors to satisfy itself as to the reliability and integrity of financial information. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual financial statements to be issued to the shareholders. The external auditors have full and free access to the Audit Committee.

Bill McEwan

BILL McEWAN
President &
Chief Executive Officer
June 25, 2003

R. GLENN HYNES, C.A.
Executive Vice President &
Chief Financial Officer
June 25, 2003

AUDITORS' REPORT

To the Shareholders of Sobeys Inc.

We have audited the consolidated balance sheets of Sobeys Inc. as at May 3, 2003 and May 4, 2002, and the consolidated statements of earnings, retained earnings, and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 3, 2003 and May 4, 2002, and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

GRANT THORNTON LLP
Chartered Accountants
New Glasgow, Nova Scotia
June 6, 2003

(in millions)		May 3, 2003		May 4, 2002
ASSETS				
Current				
Cash and cash equivalents	**$**	**123.1**	$	196.7
Temporary investments, at cost (quoted market value $191.4, 2002 $79.0)		**191.4**		77.7
Receivables		**285.4**		251.0
Inventories		**444.0**		394.6
Prepaid expenses		**30.5**		30.4
Future tax assets *(Note 10)*		**2.7**		5.4
Mortgages and loans receivable		**15.4**		23.2
Assets of discontinued operations *(Note 2)*		**1.9**		5.8
		1,094.4		984.8
Mortgages and loans receivable *(Note 3)*		**134.6**		117.0
Property and equipment *(Note 4)*		**1,243.9**		1,072.1
Goodwill		**555.6**		553.1
Future tax assets *(Note 10)*		**28.5**		31.2
Deferred costs *(Note 5)*		**135.5**		117.0
	$	**3,192.5**	$	2,875.2
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**971.9**	$	922.9
Income taxes payable		**37.4**		18.8
Future tax liabilities *(Note 10)*		**21.1**		–
Long-term debt due within one year		**150.1**		48.7
		1,180.5		990.4
Long-term debt *(Note 7)*		**435.3**		474.9
Employee future benefit obligation *(Note 16)*		**75.5**		70.4
Future tax liabilities *(Note 10)*		**57.7**		43.4
Deferred revenue		**6.7**		12.8
		1,755.7		1,591.9
SHAREHOLDERS' EQUITY				
Capital stock *(Note 8)*		**903.4**		901.3
Retained earnings		**533.4**		382.0
		1,436.8		1,283.3
	$	**3,192.5**	$	2,875.2

See accompanying notes to consolidated financial statements.

On Behalf of the Board

Bill McEwan

Director

Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended May 3, 2003 (in millions)	**2003**	2002
Balance, beginning of year	**$ 382.0**	$ 192.5
Net earnings	**179.0**	210.6
	561.0	403.1
Dividends declared	**23.8**	15.8
Premium on common shares purchased for cancellation *(Note 8)*	**3.8**	5.3
Balance, end of year	**$ 533.4**	$ 382.0

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended May 3, 2003 (in millions)	**2003**	2002
Sales	**$ 10,414.5**	$ 9,732.5
Cost of sales, selling and administrative expenses	**9,964.4**	9,334.9
Depreciation	**124.0**	101.0
Operating income	**326.1**	296.6
Interest expense		
Long-term debt	**41.7**	54.9
Short-term debt	**–**	2.1
	41.7	57.0
	284.4	239.6
Capital loss and other items *(Note 9)*	**–**	(19.4)
Earnings before the following items:	**284.4**	220.2
Income taxes *(Note 10)*		
Operating activities	**105.4**	96.5
Capital loss and other items	**–**	(7.6)
	105.4	88.9
Earnings before goodwill charges and discontinued operations	**179.0**	131.3
Goodwill charges, net of tax *(Note 1)*	**–**	15.4
Earnings before discontinued operations	**179.0**	115.9
Discontinued operations, net of tax *(Note 2)*		
Earnings from operations	**–**	14.0
Gain on sale	**–**	80.7
	–	94.7
Net earnings	**$ 179.0**	$ 210.6
Earnings per share, basic and diluted *(Note 11)*		
Earnings before discontinued operations	**$ 2.72**	$ 1.76
Net earnings	**$ 2.72**	$ 3.20

See accompanying notes to consolidated financial statements

Year Ended May 3, 2003 (in millions)	**2003**	2002
OPERATIONS		
Net earnings before discontinued operations	**$ 179.0**	$ 115.9
Items not affecting cash *(Note 12)*	**187.6**	211.0
Capital loss and other items not affecting cash	**–**	11.5
	366.6	338.4
Net change in non-cash working capital	**(18.5)**	156.3
Cash flows from operating activities	**348.1**	494.7
INVESTMENT		
Property and equipment purchases	**(342.3)**	(424.2)
Proceeds on disposal of property and equipment	**48.0**	49.1
Long-term investments and advances	**(9.8)**	17.1
Increase in deferred costs	**(41.6)**	(30.0)
Business acquisitions, net of cash acquired	**(2.5)**	(3.6)
Decrease in deferred foreign currency translation gains	**–**	(1.2)
Cash flows used in investing activities	**(348.2)**	(392.8)
FINANCING		
Bankers' acceptances	**–**	(25.0)
Issue of long-term debt	**118.6**	14.1
Repayment of long-term debt	**(56.8)**	(147.5)
Revolving securitization	**–**	(150.0)
Increase of share purchase loan	**(2.5)**	(0.3)
Issue of capital stock	**6.7**	8.6
Repurchase of capital stock	**(5.9)**	(8.4)
Dividends	**(23.8)**	(15.8)
Cash flows from (used in) financing activities	**36.3**	(324.3)
Increase (decrease) in cash from continuing operations	**36.2**	(222.4)
Discontinued operations *(Note 2)*	**3.9**	412.7
Increase in cash	**40.1**	190.3
Cash, beginning of year	**274.4**	84.1
Cash, end of year	**$ 314.5**	$ 274.4

Cash is defined as cash, treasury bills, guaranteed investments, and temporary investments.

See accompanying notes to consolidated financial statements.

May 3, 2003 (in millions, except share capital)

Note 1. Summary of significant accounting policies

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its subsidiary companies. All of the Company's subsidiaries are wholly owned.

DEPRECIATION

Depreciation is recorded on a straight line basis over the estimated useful lives of the assets as follows:

Equipment and vehicles	3–10 years
Buildings	15–40 years
Leasehold improvements	7–10 years

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash, treasury bills, and guaranteed investments.

INVENTORIES

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first-in, first-out basis. Retail inventories are valued at the lower of cost and net realizable value, less normal profit margins as determined by the retail method of inventory valuation.

LEASES

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight line basis over its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

GOODWILL

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible assets acquired at the date of acquisition.

Effective May 5, 2002, the Company prospectively adopted the requirements of the new standard issued by the CICA on accounting for Goodwill and Other Intangible Assets, Section 3062. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but are subject to an annual impairment review. Any permanent impairment in the book value of goodwill or intangible assets will be written off against earnings. The Company has completed its review, and determined the book value of existing goodwill is not impaired.

Goodwill charges are net of income tax recovery of $0.6 for fiscal 2002.

STOCK-BASED COMPENSATION

Members of the Board of Directors may elect to receive all or any portion of their fees in Deferred Share Units ("DSU") in lieu of cash. The number of DSUs received is determined by the market value of Sobeys Inc. common shares on each directors fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of a Sobeys Inc. common share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a common share, and records any increase in the DSU obligation as an operating expense. At May 3, 2003, there were 26,617 (2002 12,496) DSUs outstanding.

REVENUE RECOGNITION

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company, and revenue from sales to franchised stores, associated stores, and independent accounts.

INTEREST CAPITALIZATION

Interest related to the period of construction is capitalized as part of the cost of the related property and equipment. The amount of interest capitalized to construction in progress in the current year was $1.3 (2002 $0.7).

DEFERRED REVENUE

Deferred revenue consists of long-term supplier purchase agreements, and rental revenue arising from the sale of subsidiaries. Deferred revenue is being taken into income over the term of the related agreement and leases.

STORE OPENING EXPENSES

Store opening expenses of new stores and store conversions are written off during the first year of operation.

FINANCIAL INSTRUMENTS

The Company uses interest rate instruments to manage exposure to fluctuations in interest rates. The realized gain or loss arising from the instruments is included in interest expense.

ACCOUNTING ESTIMATES

The preparation of consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

FUTURE INCOME TAXES

CICA Handbook Section 3465 requires the difference between the tax basis of assets and liabilities and their carrying value on the balance sheet be used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using substantially enacted tax rates that will be in effect when the differences are expected to reverse.

EARNINGS PER SHARE

Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding, during the year.

Note 2. Discontinued operations

On March 30, 2002, Sobeys Inc. completed the sale of substantially all of the assets of its SERCA Foodservice operations. SERCA Foodservice distributed foodservice products to hospitality, institutional, and commercial customers throughout Canada.

The revenues of discontinued operations were $2,003.6 for the forty-seven weeks ended March 30, 2002.

Interest on debt that is not directly attributable to the discontinued operations has not been allocated to the discontinued operations.

May 3, 2003, and May 4, 2002, current assets of discontinued operations consist of assets for resale.

Cash flows from discontinued operations for the 52 weeks ended May 3, 2003, includes cash generated by investing activities of $3.9. Cash flows from discontinued operations for the 11 months ended March 30, 2002, includes cash used by operating activities of $2.2, cash generated by investing activities of $3.8, and cash used by financing activities of $0.3.

GAIN ON SALE

On March 30, 2002, predominately all of the assets of SERCA Foodservice were sold to SYSCO Corp. The components of the gain on sale are:

		May 4, 2002
Cash proceeds	$	411.4
Trade and other receivables		(185.7)
Inventory		(97.6)
Property and equipment		(37.1)
Goodwill		(154.0)
Other assets and liabilities		(11.9)
Selling expenses		(3.6)
Trade and other payables		198.7
Net assets		(291.2)
Gain on sale, before income tax		120.2
Current tax expense		(39.5)
Gain on sale	$	80.7

Note 3. Mortgages and loans receivable

	May 3, 2003	May 4, 2002
Loans receivable	**$ 140.4**	$ 120.7
Mortgages receivable	**9.0**	18.9
Other	**0.6**	0.6
	150.0	140.2
Less amount due within one year	**15.4**	23.2
	$ 134.6	$ 117.0

LOANS RECEIVABLE

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear interest at rates which fluctuate with prime and have repayment terms up to ten years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

Note 4. Property and equipment

May 3, 2003	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**$ 83.4**	**$ –**	**$ 83.4**
Land held for development	**81.4**	**–**	**81.4**
Buildings	**451.3**	**96.3**	**355.0**
Equipment and vehicles	**1,320.3**	**774.7**	**545.6**
Leasehold improvements	**263.9**	**146.7**	**117.2**
Construction in progress	**50.9**	**–**	**50.9**
Assets under capital leases	**15.4**	**5.0**	**10.4**
	$ 2,266.6	**$ 1,022.7**	**$ 1,243.9**

May 4, 2002	Cost	Accumulated Depreciation	Net Book Value
Land	$ 75.0	$ –	$ 75.0
Land held for development	78.8	–	78.8
Buildings	412.3	95.1	317.2
Equipment and vehicles	1,194.8	772.9	421.9
Leasehold improvements	247.1	130.3	116.8
Construction in progress	51.5	–	51.5
Assets under capital leases	17.6	6.7	10.9
	$ 2,077.1	$ 1,005.0	$ 1,072.1

Note 5. Deferred costs

	2003 Net Book Value	2002 Net Book Value
Deferred store marketing costs	$ **40.1**	$ 41.8
Deferred financing costs	**7.0**	9.2
Deferred purchase agreements	**16.7**	16.1
Transitional pension asset	**38.1**	25.1
Other	**33.6**	24.8
Total	$ **135.5**	$ 117.0

Deferred costs are amortized as follows:

Deferred store marketing – 7 years

Deferred financing – over the term of the debt – 5 years

Deferred purchase agreements – over the term of the franchise agreement

Note 6. Bank loans and bankers' acceptances

Under the terms of a credit agreement entered into between the Company and a banking syndicate arranged by the Bank of Nova Scotia, a revolving term credit facility of $300.0 was established. This unsecured facility will expire on June 24, 2004, however various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years.

Interest payable on this facility fluctuates with changes in the prime interest rate.

Note 7. Long-term debt

	May 3, 2003	May 4, 2002
First mortgage loans, average interest rate 9.8%, due 2008 – 2021	$ **25.1**	$ 26.8
Bank loans, average interest rate 6.4%, due September 30, 2004	**60.0**	100.0
Medium term note, interest rate 7.6%, due November 1, 2005	**175.0**	175.0
Medium term note, interest rate 7.0%, due October 2, 2003	**100.0**	100.0
Medium term note, interest rate 7.2%, due February 26, 2018	**100.0**	–
Debentures, average interest rate 10.7%, due 2008 – 2013	**78.3**	83.4
Notes payable and other debt at interest rates fluctuating with the prime rate	**37.6**	27.8
	576.0	513.0
Capital lease obligations, due 2003 – 2011, net of imputed interest	**9.4**	10.6
	585.4	523.6
Less amount due within one year	**150.1**	48.7
	$ **435.3**	$ 474.9

The Company has fixed the interest rate on $45.1 of its long-term debt at 6.4 percent by utilizing interest exchange agreements.

First mortgage loans are secured by land, buildings, and specific charges on certain assets. Sobeys Group Inc., an indirect subsidiary of Sobeys Inc., has provided the debenture holders with a floating charge over all its assets, subject to permitted encumbrances, a general assignment of book debts, and the assignment of proceeds of insurance policies.

During fiscal 2001, a short form prospectus was filed providing for the issuance of up to $500.0 in unsecured medium term notes. At the same time the Company negotiated a new unsecured $550.0 credit facility consisting of $250.0 of non-revolving debt to be repaid over five years, plus a $300.0 revolving line of credit. As of May 3, 2003, $190.0 of the non-revolving debt had been retired. The short form prospectus expired on June 22, 2002, in accordance with the terms. On December 20, 2002, (amended on February 17, 2003) the Company filed a final short form prospectus providing for the issuance of up to $500.0 of unsecured medium term notes over the next two years.

Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

	Long-term debt	Capital leases
2004	$ 148.7	$ 1.4
2005	28.5	1.5
2006	183.5	1.5
2007	7.1	1.6
2008	8.4	1.1

OPERATING LEASES

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2004 is approximately $137.1 ($231.9 gross less expected sub-lease income of $94.8). The net commitments over the next five fiscal years are:

	Net Lease Obligation
2004	$ 137.1
2005	132.5
2006	126.1
2007	114.6
2008	108.9

Note 8. Capital stock

AUTHORIZED

	Number of shares
Preferred shares, par value of $25 each, issuable in series as a class	500,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000
Common shares, without par value	499,626,115

ISSUED AND OUTSTANDING

	Number of shares		Capital stock	
	May 3, 2003	May 4, 2002	**May 3, 2003**	May 4, 2002
Common shares, without par value	**65,893,168**	65,876,281	**$ 922.7**	$ 918.0
Loans receivable from officers and employees under share purchase plan			**(19.3)**	(16.7)
Total capital stock	**65,893,168**	65,876,281	**$ 903.4**	$ 901.3

During the current fiscal year, the Company purchased for cancellation 151,965 (2002 – 221,920) of its common shares, as part of a normal course issuer bid announced on December 13, 2002. The purchase price for the shares was $5.9 (2002 – $8.4) and $3.8 (2002 – $5.3) of the purchase price (representing the excess of the purchase price over the average paid-up value of common shares purchased for cancellation) was charged to retained earnings.

During the current fiscal year 169,387 (2002 – 319,244) common shares of Sobeys Inc. were issued under the Company's share purchase plan to certain officers and employees for $6.7 (2002 – $8.6).

Loans receivable from officers and employees of $19.3 under the Company's share purchase plan are classified as a reduction of capital stock. Loan repayments will result in a corresponding increase in capital stock. The loans are non-interest bearing, non-recourse, and are secured by 705,727 common shares of Sobeys Inc.

Note 9. Capital loss and other items

	May 3, 2003	May 4, 2002
Loss on carrying value of redundant real estate assets	$ –	$ (9.9)
Employee future benefit obligation	–	(9.5)
	$ –	$ (19.4)

LOSS ON CARRYING VALUE OF REDUNDANT REAL ESTATE ASSETS

In the prior year, as a result of a strategic review of the carrying value of redundant property held for resale, the Company determined a write down was appropriate to align the carrying value with the current market value of these redundant properties.

EMPLOYEE FUTURE BENEFIT OBLIGATION

At the time of the implementation of CICA Section 3461, the employee future benefit liability was estimated to be $59.1, based on the information available at that time. In the prior year, the Company requested an updated actuarial valuation of this liability. This valuation using current information, indicated that the previous estimate for former Oshawa employees was understated by $9.5.

Note 10. Income taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	May 3, 2003	May 4, 2002
Income tax expense according to combined statutory rate of 36.5% (2002 – 39.4%)	$ 103.9	$ 88.6
Increase (reduction) in income taxes resulting from:		
Non-taxable gains	(0.3)	(0.3)
Non-deductible goodwill amortization	–	5.9
Large corporation tax	1.8	1.7
Total income taxes (before capital loss and other items)	105.4	95.9
Capital loss and other items	–	(7.6)
Total	$ 105.4	$ 88.3

May 3, 2003 income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	**$ 64.6**	**$ 40.8**	**$ 105.4**

May 4, 2002 income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	$ 75.8	$ 20.7	$ 96.5
Capital loss and other items	(1.2)	(6.4)	(7.6)
Goodwill	–	(0.6)	(0.6)
	$ 74.6	$ 13.7	$ 88.3

The tax effect of temporary differences that give rise to significant portions of the future tax liability are presented below:

	May 3, 2003	May 4, 2002
Employee future benefit obligation	**$ 24.3**	$ 26.9
Restructuring provisions	**2.7**	5.4
Pension contributions	**(12.3)**	(13.8)
Deferred costs	**(14.9)**	(10.2)
Deferred credits	**(34.9)**	–
Goodwill	**(4.4)**	(9.2)
Fixed assets	**(5.5)**	–
Other	**(2.6)**	(5.9)
	$ (47.6)	$ (6.8)
Current future tax assets	**$ 2.7**	$ 5.4
Non-current future tax assets	**28.5**	31.2
Current future tax liabilities	**(21.1)**	–
Non-current future tax liabilities	**(57.7)**	(43.4)
	$ (47.6)	$ (6.8)

Note 11. Earnings per share

Earnings per share amounts are calculated on the year-to-date weighted average number of shares outstanding (2003 – 65,928,308 and 2002 – 65,877,299).

	May 3, 2003	May 4, 2002
Earnings before discontinued operations	**$ 179.0**	$ 115.9
Earnings from discontinued operations	**–**	14.0
Capital loss and other items	**–**	11.8
Operating earnings (earnings before capital loss and other items, and gain on sale of discontinued operations)	**179.0**	141.7
Capital loss and other items	**–**	(11.8)
Gain on sale of discontinued operations	**–**	80.7
Net earnings	**$ 179.0**	$ 210.6
EARNINGS PER SHARE IS COMPRISED OF THE FOLLOWING:		
Earnings before discontinued operations	**$ 2.72**	$ 1.76
Earnings from discontinued operations	**–**	0.21
Capital loss and other items	**–**	0.18
Operating earnings (earnings before capital loss and other items, and gain on sale of discontinued operations)	**2.72**	2.15
Capital loss and other items	**–**	(0.18)
Gain on sale of discontinued operations	**–**	1.23
Net earnings	**$ 2.72**	$ 3.20

Note 12. Supplementary cash flow information

	May 3, 2003	May 4, 2002
A) ITEMS NOT AFFECTING CASH		
Depreciation	**$ 124.0**	$ 101.0
Goodwill amortization	**–**	16.1
Future tax provision	**40.8**	70.2
Loss on disposal of assets	**0.7**	3.1
Amortization of deferred items	**17.0**	19.0
Employee future benefit obligation	**5.1**	1.6
	$ 187.6	$ 211.0
B) OTHER ITEMS		
Net interest paid	**$ 40.7**	$ 59.4
Net income taxes paid	**$ 66.5**	$ 47.3

Note 13. Related party transactions

The Company leased certain real property from related parties, at fair market value, during the year. The aggregate net payments under these leases amounted to approximately $49.8 (2002 $49.5). The Company was charged expenses of $0.5 (2002 $0.6) by related parties.

In the current fiscal year, the Company received $1.6 from the sale of marketable securities to its parent company. The marketable securities were sold at fair market value, for a gain of $1.4.

At May 3, 2003, mortgage receivables of $2.2 were owing from related parties.

Related party transactions are with the parent company Empire Company Limited and any of its subsidiaries. Empire Company Limited is a majority shareholder of Sobeys Inc., holding 62 percent of Sobeys Inc. common shares.

Note 14. Financial instruments

CREDIT RISK

There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The book value of cash and cash equivalents, temporary investments, receivables, mortgages and loans receivable, and accounts payable and accrued liabilities approximate fair values at May 3, 2003.

The total fair value of long-term debt is estimated to be $622.9. The fair value of variable rate long-term-debt is assumed to approximate its carrying amount. The fair value of other long-term debt has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

INTEREST RATE RISK

The majority of the Company debt is at fixed rates. Accordingly, there is limited exposure to interest rate risk.

Note 15. Contingent liabilities

GUARANTEES AND COMMITMENTS

The Company has undertaken to provide cash to meet any obligations which Sobey Leased Properties Limited (a wholly owned subsidiary of Empire Company Limited) is unable or fails to meet until all of its debentures have been paid in full in accordance with their terms. Any deficiency payment made by the Company will be by purchase of fully-paid non-assessable 5 percent redeemable, non-voting preference shares of that company. The aggregated outstanding principal amounts of these debentures at May 3, 2003, is $40.6. Sobey Leased Properties Limited's principal business relates to leasing real estate locations to Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) and its subsidiary companies.

At May 3, 2003, the Company was contingently liable for letters of credit issued in the aggregate amount of $27.4.

The Company has guaranteed certain bank loans contracted by franchise affiliates. As at May 3, 2003, these loans amounted to approximately $7.3.

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys Capital Incorporated guaranteed to the landlord a performance, by SERCA Foodservice, of all its obligations under the lease. The remaining term of the lease is 17 years with an aggregate obligation of $51.5. At the time of the sale of assets of SERCA Foodservice to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser and SYSCO Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

Sobeys Capital Incorporated (majority equity investor in IGA Canada Limited) is a member of the IGA Canada Buying Group, and enjoys all the rights, benefits and obligations associated with being a member of this Buying Group. Sobeys Capital Incorporated along with other members of the Buying Group have a performance commitment for any and all vendor payable obligations of the Buying Group. Sobeys Capital Incorporated's commitment is approximately $50.0. After an extensive review it was determined it was not in Sobeys Capital Incorporated's long-term, best interest to remain a member of the Buying Group. On March 26, 2003, the Shareholders of IGA Canada Limited approved a resolution terminating the operations of the IGA Canada Buying Group effective December 31, 2003. On April 14, 2003, the members of the Buying Group were notified of the shareholders intention to terminate the operations of the Buying Group. Accordingly, all Sobeys Capital Incorporated obligations associated with being a member of the Buying Group will cease to exist approximately thirty days after December 31, 2003.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

Note 16. Employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

DEFINED CONTRIBUTION PLANS

The total expense for the Company's defined contribution plans is as follows:

	2003	2002
	11.0	10.1

DEFINED BENEFIT PLANS

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans 2003	Pension Benefit Plans 2002	**Other Benefit Plans 2003**	Other Benefit Plans 2002
ACCRUED BENEFIT OBLIGATION				
Balance at beginning of year	**$ 204.2**	$ 206.4	**$ 88.0**	$ 61.8
Current service cost	**2.8**	3.7	**3.1**	1.5
Interest cost	**14.8**	14.7	**6.1**	4.2
Employee contributions	**0.5**	0.4	**–**	–
Plan amendments	**–**	–	**–**	–
Divestitures of SERCA Foodservice	**–**	–	**–**	(3.9)
Benefits paid	**(17.1)**	(23.0)	**(4.6)**	(4.4)
Curtailment	**–**	–	**–**	–
Plan merger	**11.8**	–	**–**	–
Actuarial loss	**14.6**	2.0	**(5.3)**	28.8
Balance at end of year	**$ 231.6**	$ 204.2	**$ 87.3**	$ 88.0
PLAN ASSETS				
Market value at beginning of year	**$ 203.5**	$ 209.5	**$ –**	$ –
Actual return on plan assets	**(13.3)**	9.1	**–**	–
Employer contributions	**15.0**	7.5	**4.6**	4.5
Employee contributions	**0.5**	0.4	**–**	–
Plan merger	**11.2**	–	**–**	–
Benefits paid	**(17.1)**	(23.0)	**(4.6)**	(4.5)
Market value at end of year	**$ 199.8**	$ 203.5	**$ –**	$ –
FUNDED STATUS				
Surplus (deficit)	**$ (31.8)**	$ (0.7)	**$ (87.3)**	$ (88.0)
Unamortized past service cost	**0.3**	0.3	**–**	–
Unamortized actuarial loss	**64.7**	21.2	**11.8**	17.6
Accrued benefit asset (liability)	**$ 33.2**	$ 20.8	**$ (75.5)**	$ (70.4)
EXPENSE				
Current service cost	**$ 2.8**	$ 3.7	**$ 3.1**	$ 1.5
Interest cost	**14.8**	14.7	**6.1**	4.2
Amortization	**0.2**	0.1	**0.5**	–
Expected return on plan assets	**(15.1)**	(16.4)	**–**	–
	$ 2.7	$ 2.1	**$ 9.7**	$ 5.7

Included in the above accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded.

	Pension Benefit Plans 2003	Pension Benefit Plans 2002	**Other Benefit Plans 2003**	Other Benefit Plans 2002
Accrued benefit obligation	**$ 14.9**	$ 14.2	**$ 75.5**	$ 70.4

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 3, 2003):

	Pension Benefit Plans 2003	Pension Benefit Plans 2002	**Other Benefit Plans 2003**	Other Benefit Plans 2002
Discount rate	**6.50%**	7.00%	**6.50%**	7.00%
Expected long-term rate of return on plan assets	**7.00%**	8.00%		
Rate of compensation increase	**4.00%**	4.00%		

For measurement purposes, a 10 percent fiscal 2003 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2010 is 6%. The average remaining service period of the active employees covered by the pension benefit plans and other benefit plans is 12 and 18 years, respectively.

Note 17. Comparative figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation, including required disclosure for discontinued operations.

(in millions, except per share information)	**Q4 May 3, 2003**	**Q3 Feb. 1, 2003**	**Q2 Nov. 2, 2002**	**Q1 Aug. 3, 2002**	Q4 May 4, 2002	Q3 Feb. 2, 2002	Q2 Nov. 3, 2001	Q1 Aug. 4, 2001
OPERATIONS								
Sales	**$ 2,568.5**	**$ 2,594.9**	**$ 2,613.4**	**$ 2,637.7**	$ 2,424.3	$ 2,436.4	$ 2,427.4	$ 2,444.4
Operating income	**75.1**	**82.6**	**84.1**	**84.3**	75.9	80.4	72.9	67.4
Goodwill amortization	–	–	–	–	3.8	3.8	3.9	3.9
Earnings from discontinued operations	–	–	–	–	2.8	1.5	3.2	6.5
Operating earnings	**40.7**	**45.8**	**46.6**	**45.9**	37.2	36.1	35.1	33.3
Net capital loss & other items	–	–	–	–	(11.8)	–	–	–
Gain on sale of discontinued operations	–	–	–	–	80.7	–	–	–
Net earnings	**$ 40.7**	**$ 45.8**	**$ 46.6**	**$ 45.9**	$ 106.1	$ 36.1	$ 35.1	$ 33.3
PER SHARE INFORMATION *(basic and diluted)*								
Operating income	**$ 1.14**	**$ 1.26**	**$ 1.28**	**$ 1.28**	$ 1.15	$ 1.22	$ 1.11	$ 1.02
Goodwill amortization	–	–	–	–	0.06	0.06	0.06	0.06
Earnings from discontinued operations	–	–	–	–	0.04	0.02	0.05	0.10
Operating earnings	**0.62**	**0.70**	**0.71**	**0.70**	0.56	0.55	0.53	0.51
Net capital loss & other items	–	–	–	–	(0.18)	–	–	–
Gain on sale of discontinued operations	–	–	–	–	1.23	–	–	–
Net earnings	**$ 0.62**	**$ 0.70**	**$ 0.71**	**$ 0.70**	$ 1.61	$ 0.55	$ 0.53	$ 0.51
Weighted average number of shares	**65.9**	**65.8**	**65.8**	**65.8**	65.9	65.9	65.9	65.8
Operating Income as a percent of sales	**2.92%**	**3.18%**	**3.22%**	**3.20%**	3.13%	3.30%	3.00%	2.76%
EBITDA as a percent of sales	**4.20%**	**4.41%**	**4.36%**	**4.32%**	4.28%	4.35%	3.97%	3.74%

Year Ended May (in millions, except per share data)	**2003**	2002	2001	2000	1999
OPERATIONS					
Sales	**$ 10,414.5**	$ 9,732.5	$ 9,163.0	$ 8,941.7	$ 5,216.8
Cost of Sales, Selling and Administrative Expense	**9,964.4**	9,334.9	8,841.0	8,613.3	5,032.2
Depreciation	**124.0**	101.0	90.6	89.2	63.6
Operating Income	**326.1**	296.6	231.4	239.2	121.0
Interest Expense	**41.7**	57.0	77.5	88.9	46.5
Income Taxes (operating activities)	**105.4**	96.5	63.8	65.1	28.3
Goodwill Charges	**–**	15.4	15.1	14.7	8.4
Earnings (loss) from Discontinued Operations	**–**	14.0	16.2	9.7	(16.1)
Operating Earnings	**179.0**	141.7	91.2	80.2	21.7
Net Capital Gain (loss) & Other Items	**–**	68.9	(49.2)	–	(29.8)
Net Earnings (loss)	**179.0**	210.6	42.0	80.2	(8.1)
Cash Flows from Operating Activities	**348.1**	494.7	110.3	283.4	266.3
Property and Equipment Purchases	**342.3**	424.2	194.6	192.6	249.2
FINANCIAL POSITION					
Net Working Capital	**(86.1)**	(5.6)	(81.7)	(221.0)	(346.5)
Property and Equipment	**1,243.9**	1,072.1	815.5	841.9	831.7
Total Assets	**3,192.5**	2,875.2	2,917.6	2,891.0	2,878.8
Long-term Debt	**585.4**	523.6	657.0	854.5	973.3
Shareholders' Equity	**1,436.8**	1,283.3	1,089.8	817.7	750.0
PER SHARE INFORMATION					
Operating Earnings	**2.72**	2.15	1.50	1.43	0.59
Net Earnings (loss)	**2.72**	3.20	0.69	1.43	(0.22)
Cash Flow from Operating Activities	**5.28**	7.48	1.81	5.06	7.29
Dividends	**0.36**	0.24	0.24	0.24	0.38
Weighted Average Number of Common Shares Outstanding	**65.9**	65.9	60.8	56.0	36.5
Closing Share Price	**36.75**	44.25	23.00	21.00	18.75

The Ingredients of Good Governance

The Board of Directors and management of Sobeys Inc. believe that the highest standards of corporate governance are essential in the effective management of our Company as well as our ability to build sustainable worth for our customers, employees and franchise affiliates, suppliers, and shareholders. Accordingly, Sobeys' Board of Directors and management strive to comply in all respects with the requirements and guidelines for Corporate Governance, as set out by our various regulators.

AN EXPERIENCED AND INDEPENDENT BOARD

Because good corporate governance depends on an effective Board of Directors, Sobeys has worked hard to recruit a diverse group of directors whose experience, judgment and integrity provide a wide perspective on the issues affecting our business. In addition, Sobeys' Board has been carefully assembled to ensure the interests of our shareholders and management are represented in a balanced manner that promotes the best interests of the Company. Twelve of the Company's 14 directors are unrelated as defined in the TSX Guidelines for Corporate Governance. This means they are considered independent of management and free from any interest or relationship (other than as a shareholder) that could materially interfere with their ability to act in the best interests of the Company.

Pursuant to its written mandate, Sobeys' Board oversees the management of the business affairs of the corporation, discharging its responsibilities either directly or through its committees, with the goal of building sustainable worth for all of the Company's stakeholders.

Among its numerous duties and responsibilities, Sobeys' Board:

- Oversees the strategic planning process, including approval of the strategic plan and corporate performance objectives;
- Selects, monitors the performance, and sets appropriate compensation for the CEO;
- Oversees the ethical, legal and social conduct of the Company;
- Identifies principal risks and oversees the implementation of the systems required to manage them;
- Ensures succession planning for senior management is addressed; and
- Ensures integrity of internal control and management information systems.

ACTIVELY ENGAGED BOARD COMMITTEES

Our Board of Directors has established four committees: Corporate Governance Committee, Human Resource Committee, Audit Committee, and Nominating Committee.

CORPORATE GOVERNANCE COMMITTEE

In accordance with TSX Guidelines, the Corporate Governance Committee consists of four directors, three of whom are unrelated and all of whom are outside directors. The Committee's responsibilities include:

- Developing the Company's approach to corporate governance issues, including responsibility for disclosure;
- Assessing the performance and effectiveness of the Board, its committees, and individual directors; and
- Recommending compensation of directors.

HUMAN RESOURCES COMMITTEE

In accordance with TSX Guidelines, the Human Resources Committee consists of six directors of whom five are unrelated and six are outside directors. The Committee's responsibilities include:

- Reviewing the Company's management training and development programs;
- Monitoring succession planning;
- Ensuring compliance with occupational health and safety standards; and
- Recommending compensation for executive management.

AUDIT COMMITTEE

In accordance with TSX Guidelines, the Company's Audit Committee consists of five unrelated, outside directors all of whom are financially literate. The Committee's responsibilities include:

- Reviewing and assessing the Company's financial reporting practices and procedures;
- Reviewing the adequacy of internal accounting controls and independence of external auditors from management;
- Assessing risk management of the Company's assets;
- Reviewing and approving consolidated quarterly and annual financial statements, management discussion and analysis and related communications prior to submission to the Board; and
- Communicating directly with internal and external auditors to discuss and review specific issues as appropriate.

NOMINATING COMMITTEE

In accordance with TSX Guidelines, the Company's Nominating Committee consists of three members, all of whom are unrelated, outside directors. The Committee's responsibilities include:

- Recommending suitable candidates for election or appointment as directors of the Company.

A STRICT CODE OF BUSINESS CONDUCT

Sobeys maintains codes of business conduct, which apply to all of the Company's directors and to all of its officers and employees. The codes are explained in detail on the Company's website.

A COMPREHENSIVE DISCLOSURE POLICY

The Corporate Governance Committee has developed a comprehensive corporate disclosure policy that governs the Company's interaction with analysts, shareholders and the public, to ensure compliance with regulatory requirements and the disclosure of information on a fair and timely basis to all shareholders. The policy, which is communicated to appropriate employees, a minimum of once a year, is explained in detail on the Company's website.

MORE INFORMATION

A complete description of the Company's corporate governance policies is contained in the Management Proxy Circular.

BOARD OF DIRECTORS

JOHN L. BRAGG (2)
Collingwood, Nova Scotia
Director since 1998.
President
Oxford Frozen Foods Ltd.

MARCEL CÔTE (4)
Montreal, Quebec
Director since 1998
Senior Partner, Secor Inc.

CHRISTINE CROSS (1)
Thundridge, Herts,
United Kingdom
Director since 2003
President,
Christine Cross Ltd.

SIR GRAHAM DAY
Hantsport, Nova Scotia
Director since 1998.
Counsel to Stewart McKelvey
Stirling Scales and
Chairman, Sobeys Inc.

ROBERT P. DEXTER (1) (6) (8)
Halifax, Nova Scotia
Director since 1998.
Chairman & Chief
Executive Officer,
Maritime Travel Inc.

RONALD V. JOYCE (3)
Calgary, Alberta
Director since 1998.
Director, Co-Founder &
Senior Chairman,
The TDL Group Limited

BILL McEWAN
New Glasgow, Nova Scotia
Director since 2000.
President &
Chief Executive Officer,
Sobeys Inc.

MALEN NG (1)
Toronto, Ontario
Director since 2001
Corporate Director

DAVID F. SOBEY (3)
New Glasgow, Nova Scotia
Director since 1998.
Chairman Emeritus (9),
Sobeys Inc.

DONALD R. SOBEY (3)
New Glasgow, Nova Scotia
Director since 1998.
Chairman, Empire Company
Limited

FRANK C. SOBEY (1)
Stellarton, Nova Scotia
Director since 2001.
Chairman,
Crombie Properties Limited

JOHN R. SOBEY (5) (7)
Stellarton, Nova Scotia
Director since 1998.
Corporate Director

PAUL D. SOBEY (3) (5)
New Glasgow, Nova Scotia
Director since 1998.
President & Chief Executive
Officer, Empire Company
Limited

LAWRENCE N. STEVENSON (3)(5)(7)
Philadelphia, Pennsylvania
Director since 1999.
President &
Chief Executive Officer,
The Pep Boys –
Manny, Moe & Jack

(1) Audit Committee Member
(2) Audit Committee Chairman
(3) Human Resources Committee Member
(4) Human Resources Committee Chairman
(5) Corporate Governance Committee Member
(6) Corporate Governance Committee Chairman
(7) Nominating Committee Member
(8) Nominating Committee Chairman
(9) Honourary Title, for Life

OFFICERS

SIR GRAHAM DAY
Chairman

BILL McEWAN
President & Chief Executive Officer

R. GLENN HYNES
Executive Vice President &
Chief Financial Officer

JAMES M. (JIM) DICKSON
Executive Vice President,
Chief Development Officer &
Secretary

PAUL A. JEWER
Vice President,
Finance & Treasurer

L. JANE McDOW
Assistant Secretary

MICHAEL G. SCOTT
President Operations,
Sobeys Atlantic

MARC POULIN
President Operations,
Sobeys Quebec

DUNCAN F. REITH
President Operations,
Sobeys Ontario

J. GARY KERR
Executive Vice President &
General Manager,
Sobeys West

FRANÇOIS VIMARD
Executive Vice President

Accounts receivable securitization – accounts receivable that are purchased by a third party, and no longer recorded as an asset on the balance sheet

Adjusted debt – funded debt plus capitalized value of operating lease payments, which is calculated as six times net annual operating lease payments

C.O.R.E. – a strategic vendor engagement program involving longer-term relationships with key multi-category vendors

Adjusted debt to capital – adjusted debt divided by the sum of adjusted debt and shareholders' equity

Capital expenditure / investment – payments made for the acquisition of property and equipment

Company-wide capital expenditures / investment – total investment in property and equipment, which includes investment financed by the Company, third party operating leases, landlords and franchise affiliates

EBITDA – earnings before interest, taxes, depreciation and amortization

EBITDA margin – EBITDA divided by sales

Employee satisfaction index – starting with a base of 100, measures progress in Sobeys' employee satisfaction through independent employee surveys

Expanded stores – stores that undergo construction resulting in square footage increase

Funded debt – all interest bearing debt, which includes bank loans, bankers' acceptances and long–term debt

Hedge – a financial instrument used to manage foreign exchange or interest rate risk by making a transaction which offsets the existing position

Interest coverage – EBITDA divided by interest expense

Letters of credit – financial instruments issued by a financial institution to guarantee the Company's payments to a third party

Managed working capital – the net amount of accounts receivable and inventories less accounts payable

National share of requirements – measurement (percentage) of all Sobeys shopping households' total grocery requirements that are satisfied by the Company's retail stores

On balance sheet investment – the Company's investment in property and equipment that is recorded on the balance sheet

Operating earnings – net earnings before gain on sale of discontinued operations, and net capital loss & other items

Operating Income (EBIT) – earnings before interest and taxes

Operating margin (EBIT) – EBIT divided by sales

Renovated stores – stores that undergo construction, resulting in no increase in square footage

Retail Brands – a brand of products that is marketed, distributed and owned by the Company

Return on equity – operating earnings divided by average shareholders' equity

Same store sales – sales from stores that have not experienced any increase in square footage in the reporting period

Supplier rating – an independent comprehensive survey of how the Company ranks with its suppliers on key performance criteria versus its retail peer group

Total capital – funded debt plus shareholders' equity

Weighted average number of shares – number of common shares outstanding adjusted to take into account the time the shares are outstanding in the reporting period

Working capital -- total current assets less total current liabilities

HEAD OFFICE
115 King Street
Stellarton, Nova Scotia B0K 1S0
Telephone: (902) 752 8371
Facsimile: (902) 928 1101
Email: investor.relations@sobeys.com

INVESTOR RELATIONS
For additional information please write the Company,
c/o Paul Jewer, CA, Vice President, Finance & Treasurer

WEB ADDRESS
www.sobeys.com

SHAREHOLDERS' ANNUAL GENERAL MEETING
September 9, 2003, at 10:00 a.m. (ADT)
Aberdeen Cinemas
610 East River Road
New Glasgow, Nova Scotia

STOCK EXCHANGE LISTING
Toronto Exchange
Stock Symbol
Common Shares – SBY

AVERAGE DAILY TRADING VOLUME (TSX)
69,600

COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2004*

Record Date	Payment Date
July 15, 2003	July 31, 2003
Oct. 15, 2003	Oct. 31, 2003
Jan. 15, 2004	Feb. 2, 2004
Apr. 15, 2004	Apr. 30, 2004

* *subject to approval by Board of Directors*

OUTSTANDING SHARES
As of June 25, 2003
Common shares outstanding 65,896,240

TRANSFER AGENT AND REGISTRAR
CIBC Mellon Trust Company
Investor Correspondence
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Toll free in North America: (800) 387 0825
Email: enquiries@cibcmellon.com
Web address: www.cibcmellon.com

BANKERS
Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo Mitsubishi
Canadian Imperial Bank of Commerce
Laurentian Bank
National Bank of Canada
Rabobank
TD Canada Trust

SOLICITORS
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

AUDITORS
Grant Thornton, LLP
New Glasgow, Nova Scotia

INVESTOR INQUIRIES
For more information on shareholders services or any other inquiries regarding investor records, including stock transfer, address change, lost certificates, tax forms, contact the Company's transfer agent and registrar.

Shareholders, analysts, and investors should direct their financial inquiries or requests to Paul Jewer, CA, Vice President, Finance & Treasurer.

EXEMPLAIRE FRANÇAIS
Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :
Sobeys Inc.
Relations avec les investisseurs
115, rue King
Stellarton (N-É) B0K 1S0

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Sobeys Inc.

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